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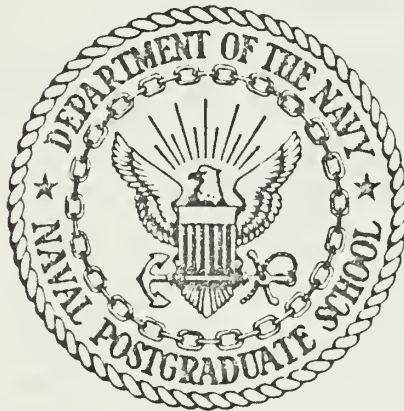






# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



# THESIS

GRAMM-RUDMAN, PROPOSITION 13, AND  
CUTBACK MANAGEMENT

by

James Crawford Cox, Jr.

December 1986

Thesis Advisor:

Jerry L. McCaffery

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Gramm-Rudman, Proposition 13, and  
Cutback Management

by

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Submitted in partial fulfillment of the  
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

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## ABSTRACT

The Gramm-Rudman Act mandated the sequestration of over 11 billion previously approved FY-1986 budget dollars. DOD financial managers then found themselves faced with tough decisions in order to fulfill missions with less resources than expected. The fiscal environment facing DOD organizations resembled that faced by local governments in California following the passage of Proposition 13 in 1978. A survey of DOD financial managers was conducted to determine how these managers were reacting to their reduced budgets. Responses were compared to actions taken by California managers subsequent to Proposition 13 to gauge the potential of the strategies now being employed to cope with Gramm-Rudman. This study indicates that DOD managers have begun cutting back, but have not yet made the fundamental shift from maintaining their previous organization to embracing a new, leaner one which can function with significantly fewer resources.



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## I. INTRODUCTION ✓

The Balanced Budget and Emergency Deficit Control Act of 1985 was signed by President Reagan on 12 December 1985, and, along with a resolution raising the ceiling on the National Debt to \$2,078,700,000,000 and a separate resolution condemning the murder of Leon Klinghoffer aboard the MV Achille Lauro, became Public Law 99-177 [Ref. 1]. The law has since become popularly known as "Gramm-Rudman" in honor of its two principal Senate sponsors, Phil Gramm, (D-TX), and Warren Rudman (R-NH). ✓

After the rhetoric on the merits and demerits of forced deficit reduction, after the predictions of gloom and doom if this or that legislation is passed or defeated, and after the mandates to reduce spending have filtered down through the agencies, to the departments, and ultimately, to an activity's financial manager, then and only then is the Herculean task, that of reducing the budget without crippling the organization, begun. Financial managers at the operating level are the ones who must ultimately wrestle with reduced resources and provide the means to accomplish more with less. ✓

### A. THE THESIS ✓

This thesis examines the manner in which a group of Department of Defense financial managers coped with abrupt



termination of resources following the loss of their portion of the \$3.9 billion of Operations and Maintenance budget authority sequestered from the FY-86 budget. The strategies employed in meeting the challenge of reduced operating budgets, the manner in which hard budgeting decisions were made, and the communications processes overlaying the entire management effort will be examined. Since Gramm-Rudman portends an upcoming period of scarce resources, the planning processes to cope with the upcoming era of retrenchment were also surveyed.✓

Gramm-Rudman's abrupt termination of a budgeted, and therefore expected, resource stream is not unprecedented. The actions and reactions of the DOD manager will be compared to the responses of managers in California cities and counties following the passage of Proposition 13 in 1978. While the genesis, objectives, and implementation of each measure vary, the environment, government organizations receiving fewer funds than anticipated, is common to both Proposition 13 and Gramm-Rudman. Due to the similarities involved, one can gauge the DOD managers' attempts at cutting back by comparing their responses with those observed when local California managers attempted to cope with Proposition 13.✓

## B. THE QUESTIONNAIRE

This thesis contributes to DOD management by providing information regarding the manner in which DOD financial

managers faced the impact of Gramm-Rudman mandated budget cuts. A questionnaire was used to survey financial managers on a broad range of topics relevant to cutback management to determine the way managers coped. A copy of the questionnaire, and forwarding letter, is appended. Respondents were requested to remain anonymous to ensure candid feedback✓

Information was solicited from 44 commands with 27 responses received. Although the great majority of respondents were from U.S. Navy commands, responses were obtained from other DOD agencies and components as well. Questionnaires were distributed over the summer of 1986, and responses received from mid-July through mid-September. The response "window" is significant since some of later respondents had received unanticipated end of year funding by the time they responded, therefore biasing some of their responses.✓

## C. THE FORMAT

Before comparing the responses to both Gramm-Rudman and to Proposition 13, a review of Gramm-Rudman is required. In examining Gramm-Rudman, the impact on the Department of Defense and the navy's Operations and Maintenance accounts will be highlighted. A brief discussion of "cutback management" and the impact of Proposition 13 on California managers will set the stage for an examination of how selected DOD financial managers have coped with Gramm-Rudman in FY-86. Finally, the

responses of DOD managers will be compared with those in California following Proposition 13, and estimates made regarding the state of the cutback management process.✓

## II. THE GRAMM-RUDMAN ACT

Gramm-Rudman provides a means to balance the federal budget by gradually bringing expenses in line with revenues. This is accomplished, as illustrated in Table 1, by specifying deficit targets (Maximum Deficit Amount (MDA)) beginning in FY-86 and running through FY-91 with the ultimate goal of reducing the budget deficit to \$0 by the end of FY-91.

TABLE 1

### GRAMM-RUDMAN MAXIMUM DEFICIT AMOUNTS

<u>FY-86</u>	<u>FY-87</u>	<u>FY-88</u>	<u>FY-89</u>	<u>FY-90</u>	<u>FY-91</u>
\$171.9	\$144.0	\$108.0	\$72.0	\$36.0	\$0

The act requires the President to submit a budget which does not exceed the MDA for the applicable fiscal year. Furthermore, Congressional budget resolutions must also be within the maximum deficit amount of the applicable fiscal year. The Congressional restraints are imposed in both the House and the Senate by points of order. [Ref. 2:pp. 1-2]

If the budget passed by Congress and signed by the President does not fall within \$10 billion dollars of the deficit reduction targets, as calculated by both the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO), automatic



reductions are "triggered" to eliminate the deficit excess by the process of sequestration.

Though the primary "trigger" of the bill, that being the Comptroller General of the United States specifying the deficit excess and detailing the required sequestrations to the President has been ruled unconstitutional, there are alternatives available, including one built into the law, to allow the necessary reductions to be mandated to achieve or at least progress toward a zero deficit [Ref. 2:p. 20]

#### A. BUDGET AUTHORITY AND OUTLAYS

To understand the manner in which expenses are reduced, it is necessary to differentiate between budget authority, the figure in the budget which is actually reduced by sequestration, and outlays, the actual expenses which, when in excess of revenues, cause a deficit. Outlays are the actual amount of dollars spent for a particular activity, in a given year. On the other hand, budget authority is granted to federal agencies in an appropriations bill and entitles the agency to enter into commitments that result in immediate or future spending.

Normally, budget authority represents the maximum amount of new spending commitments the agency can make. Consequently, outlays for a given year can result from budget authority granted during that year, as well as budget authority carried over from a previous appropriation. [Ref. 3:pp. 150-155]

Budget authority represents total cost, while outlays represent the amount which is actually spent during the year [Ref. 3:p. 3].

The relationship between outlays and budget authority differs significantly depending on the nature of the account. This relationship, or "spend out rate" is instrumental in determining the amount of budget authority to be sequestered to achieve a set level of outlay savings.

#### B. COMPUTING THE AMOUNT TO BE SEQUESTERED

Regardless of who initiates the sequestration procedure, the deficit excess is eliminated by sequestering from both defense and non-defense accounts which are eligible for sequestration. Approximately 72% of the federal budget is exempt from sequestration, so the accounts which are eligible will be cut more deeply than if all accounts were eligible. [Ref. 4:p.4]

Initially, one half the deficit excess, that amount of deficit over the target, is assigned to DOD and the other half to non-DOD accounts. For FY-86, \$11.7 billion was determined to be the required outlay reduction, with \$5.85 billion assigned to both defense and non-defense accounts.

Next, the total amount of outlay savings which can be achieved by not implementing automatic spending increases in a variety of retirement and disability programs is calculated. If this amount is less than one half the deficit excess, one half of this outlay savings is treated as a defense sequestration and half as

non-defense sequestrations. The elimination of automatic spending increases tends to reduce the amount by which defense and non-defense accounts must be sequestered to meet the deficit target [Ref. 5:pp. 6-8]. For the FY-86 cuts, \$.497 billion dollars was attributed to both defense and non-defense accounts as a result of not implementing the automatic increases. An additional \$.045 billion was attributed to non-defense accounts due to the elimination of certain non-defense automatic spending increases [Ref. 6:p. 43].

The appropriate percentage of funds to be sequestered from the eligible accounts is derived by dividing the necessary outlay reductions to reach the deficit target (the remaining amount of both defense and non-defense sequestrations) by the estimated amount of the sequesterable budget. The resulting percentages are then applied to both the defense and non-defense accounts. [Ref. 5:p. 8]. For the FY-86 cuts, the remaining Defense budget reduction of \$5.353 billion, was divided by the estimated outlays from the sequesterable budget authority and unobligated balances, \$109.3 billion, to achieve a 4.9% "across the board" reduction [Ref. 6:p. 50].

### C. PROGRAM, PROJECT, OR ACTIVITY

Gramm Rudman requires that in implementing sequestration, the President cut each "program, project, or activity" (PPA), within a budget account by the same percentage. "Program,

project and activity" has no statutory definition. Gramm-Rudman specifies that for accounts funded through annual appropriations, PPA will be defined in the appropriation bill each year. The PPA definitions for the 1986 cuts were treated somewhat differently since most appropriations bills had already been passed prior to the passage of Gramm-Rudman.

For defense accounts, however, the amounts cut from each PPA are (were for FY-86) those as specified in the OMB & CEO Directors report, the GAO report, and ultimately, in the President's sequestration order [Ref. 2 p. 15].

A manager of an individual PPA will have discretion, within that PPA, in meeting the across the board reductions [Ref. 4 p. 4]. Congress does, however, insist that the Department of Defense carry out sequestration in a manner not adversely affecting or altering Congressional policies and priorities as established for the Department of Defense. [Ref. 7 p. 340]

#### D. THE RESULTS OF SEQUESTRATION

A summary of Department of Defense Sequestrations for FY-86 is provided in Table 2. It is important to note the relationships between the amount of budget authority cut and the savings in outlays. Cuts in military personnel budget authority resulted in a one for one reduction in outlays while at the opposite end of the



TABLE 2  
[Ref. 5: p. 16]

DEPARTMENT OF DEFENSE SEQUESTRATIONS FOR 1986

	(billions of dollars)	
	<u>B/A</u> (a)	<u>O/L</u>
Military Personnel	.2	.2
Operations and Maintenance	3.9	2.9
Procurement	6.6	.9
R, D, T, & E	1.9	.9
Military Construction	.5	.1
Housing	<u>.2</u>	<u>.1</u>
subtotal DOD	13.3	5.1
Atomic Energy (defense)	.4	.2
other defense	<u>.1</u>	<u>(b)</u>
	13.8	5.4

(a) includes unobligated balances of authorized budget authority

(b) less than \$50 Million

spectrum, cuts in procurement yielded an outlay savings of slightly less than 14% of the budget authority cut.

The treatment of the Military Personnel account during the 1986 sequestration also deserves additional attention. For FY-86 only, the President was provided the flexibility of exempting some or all of the PPA's within the military personnel account from sequestration. In fact, 93% of the military personnel account, approximately \$61 billion, was exempted from the sequestration. The effect of this exemption was to lower the sequesterable budget base, thus reducing the "denominator" in the "% to be cut across the board equation." By exempting such a large percentage of the

military personnel appropriation from the sequesterable base, the percentage cut from eligible DOD accounts rose from 3.1% to 4.9%. A smaller base of sequesterable resources had to yield the required amount of outlay savings, as evident from Table 3.

TABLE 3

FISCAL 1986 DEFENSE: ACROSS THE BOARD CUT  
(includes military personnel accounts)

	<u>base</u>	<u>amount cut</u>	<u>%cut</u>
budget authority	\$345.4	\$10.7	3.1
resulting outlays	\$172.4	\$5.4	3.1

FISCAL 1986 DEFENSE: 93% MILPERS EXEMPT

	<u>base</u>	<u>amount cut</u>	<u>%cut</u>
budget authority	\$208.7	\$13.8	4.9
resulting outlays	\$109.3	\$5.4	4.9

Since the savings had to come from budget accounts with slower spend out rates, more budget authority had to be cut (\$13.8 vs. \$10.7). [Ref. 2:p. 16]

E. THE EFFECTS OF SEQUESTRATION ON THE O&M ACCOUNTS

The following tables illustrate how the Operations and Maintenance (O&M) reductions were achieved for both DOD and for the Navy. As has been illustrated in Table 4, while budget authority was cut uniformly in FY-86 by 4.9%, outlay reductions in the O&M account resulted in \$2.9 of the \$5.4 billion dollar

savings (54%). The column labeled estimate represents the average of the OMB and CBO estimates for FY-86 sequesterable resources. The sequester column represents 4.9% of the estimated amount of sequesterable resources.

TABLE 4  
[Ref. 5: p. 42]

OPERATIONS AND MAINTENANCE (DOD)  
(figures are in \$000's)

	<u>estimate</u>	<u>sequester</u>
budget authority	78,493,536	3,846,183
unobligated balance	1,320,000	64,680
outlay	59,917,744	2,935,969

Similarly, Table 5 illustrates the manner in which the amount of O&M, Navy to be sequestered was derived.

TABLE 5  
[Ref. 5: p. 41]

OPERATIONS AND MAINTENANCE (NAVY)  
(figures are in \$000's)

	<u>estimate</u>	<u>sequester</u>
budget authority	24,477,071	1,199,376
unobligated balance	117,000	5,733
outlay	17,633,017	864,018

## F. THE RESULTANT FUNDING SHORTFALL

The fine points of Gramm-Rudman, or the manner in which the exact amount of O&M was to be sequestered, were not, however, the immediate concern to the activity comptroller or financial manager. In FY-86, the DOD manager found he had fewer resources with which to implement and carry out his programs than he had anticipated. The same predicament will continue. The difficulty that Gramm-Rudman presents is not so much that the law requires cutting back, but that it requires cutting back into existing and ongoing programs. It requires cutting back into the "base."

In the case of the Navy's Operations and Maintenance funding, over \$800 million which had been planned, programmed, and budgeted for over the preceding two years had to be cut from 01 March until 30 September. Clearly, financial managers had difficult decisions to make, and not only for FY-86. The trend was clear. The mood of the President, Congress, and the American people indicated the difficult issue of deficit reduction was finally being addressed, and possibly resolved.

The resultant process can be summed up by the views of the Republican members of the Joint Economic Committee:

The process of deficit reduction is a headache on a grand scale. But the prospects for economic health . . . make a program of deficit reduction now a vital investment [Ref. 8:p. 1].

To reduce the deficit without raising revenues (taxes), expenses must be cut, whether by sequestration, Congressional

action to reduce the President's budget, or by the President himself.

Ultimately, regardless of the mechanism or the final dollar amount, the financial manager will find himself placed in an environment of resource scarcity, with ever-increasing and competing programs, priorities, and clientele for the ever-dwindling budget dollar. As long as taxes, and hence, revenue, are not increased, the only manner in which the deficit can be reduced will be to spend less.

With a climate of resource scarcity looming over the remainder of the 1980's and probably to the end of this century, it is time to look at new and innovative ways to manage with less. It is time to address cutback management.



### III. CUTBACK MANAGEMENT

Taxpayer revolts such as Proposition 13 in California, the near collapse into bankruptcy of New York City's government in the late 1960's, or most recently, concrete measures to reduce the federal deficit, emphasize the link between political economy and the practices of public management.

Public management strategies have traditionally been predicated on the assumption that the organization's budget will grow and that its services and programs will continue to expand. These assumptions dominate the thinking and planning in organizations which rely on annual incremental additions to their budgetary base. These annual additions have provided the means to fund near constant expansion mandated by the growth of clientele, legislated programs, and local initiatives. [Ref. 9:p. 316]

Prestige and power are signs of a growing organization. In this environment, public managers often have little incentive to conserve resources. Resources managers save will probably be used to make up the deficits of those who are less efficient within that organization. Managers who don't spend money this year, will not see the money next. [Ref. 10:p. 182] Managers must spend all their resources to show that their budgets must be increased, incrementally, in succeeding years.

The evermore prevalent decline of resources available to public organizations, whether on the national, state or local level, is attributable to a continuing imbalance between public revenues and expenditures. The specter of scarce resources is not an isolated problem, but one which will accompany us into the next century.

Academics have, over the last 20 years, been working to come to grips with the effects of resource scarcity on public management. They have been developing strategies for the design and management of public organizations in a future dominated by dwindling resources. The process of spending less is complicated by the culture prevalent in public organizations to spend all that is possible.

Cutback management is the term which has been coined to apply to the management of tradeoffs, re-allocations, organizational contractions, program terminations, sacrifice, and reduction of benefits previously felt to be irrevocable. Cutback management is a means of managing organizational change toward lower levels of resource consumption.

Four aspects of resource scarcity must be considered when formulating strategies to implement cutback management:

- People are more willing to make organizational changes if those affected have something to gain. When resources are scarce, organizational change will become more difficult since there is little if anything available to reward those involved.

- There are many constraints in public organizations. Each constraint reduces the manager's options for managing the decline for the good of the organization.
- Organizational decline raises serious morale and job satisfaction problems which make it exceedingly difficult to increase productivity and compensate for the reduced inflow of resources.
- It is less fun to work in an organization plagued by resource scarcity. Creativity and innovation inevitably decline. [Ref 10:p. 180]

Under cutback management, government is faced with the necessity to terminate programs, reduce the level of activity in others, and make tradeoffs between new demands and old programs rather than, as in the past, simply expand to meet the new demand. New managerial techniques must be devised to ensure organizational integrity under decline when all past experiences have been based on growth. Public employee morale and productivity must be boosted in the face of increasing centralized control and shrinking opportunities for promotion. [Ref. 9:p. 316]

#### A. INCREMENTAL CUTS VERSUS CUTS INTO THE BASE

When considering the necessity for cutting back, it is important to differentiate between incremental cuts and significant, or "quantum" cuts in an organization's budget.

Budgeting, traditionally has been incremental. Normally, the increment is positive, adding to or expanding the previous budgetary "base." With expansion, new programs are

implemented and old programs expand. The organization flourishes, and conflict is reduced. [Ref. 11:p. 11] Both the members of the organization and those that depend on the organization for goods or services are happy.

The budgetary base represents the expectations of the organization that current programs will continue to flourish in future budgets [Ref. 12:p. 17]. Once in the base, it is accepted that the program will survive. The program, and its participants, achieve a level of stability. They have reached equilibrium within the organization.

If the incremental increase is less than that which was proposed, the rate of expansion is reduced, but the organization still prospers. Though tradeoffs must be made, there is always a chance, and normally hope, that a program that did not make it this year due to tight money, may make it next year. The base is left intact. Nobody loses, though some may not win as much as they would have liked.

We are so ingrained with organizational growth that it is a major challenge just to get those involved to accept that a significant decline in resources is not just a temporary detour on the road to further expansion. It is nearly impossible to get public managers to confront the stark realities of cutback management.

There is a significant difference in facing the small and incremental decline in resources and when facing a "quantum" cut into the budgetary base. Cutting beyond the increment and into

the base has become more and more necessary lately, both at the local, state, and now, finally, with Gramm-Rudman, the federal level. When cutting into the base there are clear winners and losers. [Ref. 11:p. 11] The loser can't be soothed by giving him something; there is nothing left to give.

If quantum cuts are experienced, the incremental budgeting model will no longer adequately function in the new, resource constrained environment. During incremental decreases the manager must plan and organize with the goal of regaining the lost or cut resources. Under severe, quantum cuts, without expectation for restoration, the role of the manager is dramatically different. In this case, the manager must set about to restructure his organization, to match his mission with the new level of his resources. [Ref. 11:p. 21]

No longer can management "muddle through" by deferring, hiding cuts, or cutting across the board. Strategies which revolved around defending the base until incremental cuts could be restored are no longer germane. [Ref. 13:p. 327] The base has been cut; it is no longer intact. Perturbations to the base make the budgetary process exceedingly difficult since organizational equilibrium has been upset. Managers are now operating in a different environment than before the quantum cut.

## B THE IMPACT OF QUANTUM CUTS ON ORGANIZATIONS

When faced with declining resources, a manager can either eliminate an organization or cut it back. Termination is often easier, it only requires that the organization be destroyed. Retrenchment, the process of turning a going organization into a smaller one, which does less, with less, is a far greater challenge. [Ref. 14:p. 614]

Organizations cannot be cut back in the reverse order in which they were assembled. The nature of organizations is such that as a part, be it program or service, is added, it rapidly merges with the parent organization, and a new level of organizational equilibrium is achieved. This equilibrium is reinforced and nurtured by the resultant formal and informal organizational structures which arise in the expanded organization. [Ref. 9:p 317]

The efforts of the people who make up an organization, are more, or at least different in quantity and quality, than the sum of the efforts of the individuals working by themselves. Likewise, the components of an organization, whether physical, social, or personal are, when aggregated within the framework of the organization, more productive than when taken and considered individually. [Ref. 15:p. 79] It therefore follows, that when components of an organization are eliminated, the effect on the organization, and on its environment, are more severe than when eliminating a lone program of equal scope. Cutting back any



component beyond the point where organizational slack can compensate will yield a resultant output greater than the magnitude of the cut. [Ref. 14:p. 615]

### C. DECISION MAKING DURING CUTBACK MANAGEMENT

As retrenchment proceeds organizations tend to lose flexibility. Cutback management necessitates centralized decision making. A central authority must develop the alternatives and choose where cuts will be made. Elements of an organization can hardly be expected to voluntarily cut themselves to the degree required. Before the alternatives are chosen, the leaders must create an atmosphere where the decisions can be accepted. [Ref. 14:p. 619]

When organizations are expanding the penalty for a wrong decision is frequently inconsequential. During periods of abundance management seldom relies on formal, rational decision making aids. Policy making can be characterized as based on habit, intuition, and other informal means since the cost of making a mistake in allocation can be absorbed with additional, plentiful resources. Planning can be less precise. A good decision is good enough since under expansion there are seldom real losers.

When resources are scarce, planning becomes more complicated. A good decision is no longer good enough. Now, there will be real losers if resources are mis-allocated. Decisions must be based solely on what is best for the organization. A rational and formal approach is required to ensure all competing

alternatives for the dwindling resources receive adequate consideration. In times of austerity, when the benefits of formal decision support systems are most needed, the funding for their development and use is frequently not available [Ref. 9:p. 317]. The money to support the planning staff function is usually the first to go, since the planning staff can be cut without directly affecting current operations [Ref. 11:p. 12].

This myopic approach to planning is characterized as the "management science paradox":

- analytical decision making aids are critical to success in an environment of resource scarcity
- when faced with certain budget cuts, the most capable planning staffers are lured away from the organization by more promising opportunities
- a hiring freeze (normally in effect) prohibits further hiring
- the planning staff is then cut to avoid cutting those in direct service/client support

In essence, when the optimum analytic capability is available to an organization, when resources are abundant, precise planning is not required. During periods of resource scarcity when every decision is critical to the organization's survival, the capability is no long present due to attrition, cuts, and shifting organizational priorities. [Ref. 10:p. 180]

## D THE MANNER IN WHICH ORGANIZATIONS FACE CUTBACK MANAGEMENT

In a public organization, each element of the organization exhibits a mix of motives, some to enhance the local area, some the national, some to enhance the element, and some aimed at furthering the organization as a whole. Under conditions of growth, requests for resources usually can be framed and evaluated with the goals of the organization in mind. When required to make cuts, however, organizational elements normally volunteer cuts which will best provide for the sub-unit's survival, without considering the impact of the proposed cut on the whole organization. [Ref. 9:p. 319] The survival instinct leads to near term sub-optimization of maintaining the integrity of the element for as long as possible.

The survival instinct leads most people to deny that cutbacks are really necessary. Even an initial decline in resources will not convince all of the organization that the decline is permanent. To avoid reality, the initial discrepancy between plans and resources can usually be met. Near term solutions to shortfalls such as creative accounting, across the board cuts, or deferred maintenance can usually postpone the fundamental decisions on cutting back. A belief that the problem is only temporary leads everyone to share the pain until relief. The deferred maintenance will have no short term impact and equipment and facilities will suffer no long term deterioration since the cuts will soon be restored. [Ref. 14:p. 615] The preeminence of survival explains

the contrast between the lofty goals often enunciated by managers when approaching cuts and the reality of minimizing the cutback or making only token sacrifices until the heat is off [Ref. 9:p. 319]. Cutback management, when the base has been cut, does not allow for this luxury.

Unfortunately, when the reality of the long term nature of the cuts is realized, it becomes evident that short term measures which may have been unwisely implemented may have dire long term consequences. Short term solutions, aimed at avoiding the crisis, are inappropriate and self defeating. To defer maintenance will only worsen the plight of the organization in a few years when the cuts over the years have taken their toll. To succeed in managing retrenchment, the public manager must forego the short run expediencies.

The cumulative effect of repeated across the board cuts and deferred maintenance, typical short term solutions, will result in the total deterioration of the organization's physical plant and programmatic vitality. The manager ceases to effectively manage and the organization ceases to function.

Management must get the organization through the denial mode as fast as possible. Until the organization accepts reality, cutback management cannot be effective. [Ref. 14:p. 615]

## E THE ROLE OF LEADERSHIP IN CUTBACK MANAGEMENT

Leadership is the quintessential characteristic necessary for successful cutback management. Leadership requires establishing the inevitability of decline, pointing out the opportunity cost of not cutting back, and creating new strategies to match resources with newly revised or conceived programs [Ref. 14:p. 619]

The first requirement of organization leadership during cutback management is explaining to the organization, in an unequivocal way, that resources are declining and that major cuts are imminent. This does not mean a single statement, but a continuing series of reports, briefings, and speeches. Convincing the organization of the reality of cutting back is an intellectual exercise, but gaining acceptance of retrenchment is a psychological chore. Managers cannot just present the facts, the members of the organization will not believe them. A manager must "flood his people with facts" until the members of the organization cannot escape the reality of impending cuts. [Ref. 14:pp. 615-616]

This is not easy. In the initial stages of retrenchment, few people are willing to believe the lack of resources is real. Initial attitudes are optimistic--the decline is temporary, real cuts can be avoided, or cuts will be restored. Management credibility suffers as the organization comes to believe it can weather this budgetary storm and avoid the forecast cuts. [Ref. 10:p. 181]

Managers must come to grips with scarce resources and convince members of the organization that cuts are really going to



come. They can appoint a committee to study the issue, but in the end the manager must prioritize and finally, cut. Leadership based on maintaining coalitions, the norm under incremental increases, soon breaks down under resource scarcity. Management must search for a more effective strategy. Management must become more active and intrusive. [Ref. 14:p. 618] Dynamic leaders, those who can accumulate resources and bring power to bear, in an otherwise fragmented organization, are required during cutback management [Ref. 13:p. 328]. Leadership must be willing to accept criticism from those cut and able to gain the respect of those not. Being able to take the heat is a necessary part of cutback management.

The public manager must educate both his organization and his superiors regarding the new levels of resources and programs, the new equilibrium, of the organization. New strategies cannot be dictated from the top. The organization's new strategy must evolve from the growing realization that resources are declining. The new strategy must emerge from an iterative process of discussion and acquiescence. [Ref. 14:p. 619]

In addition to selecting the strategies for coping with a decline in resources, management must also decide on who will be let go, and what programs will be reduced or eliminated. Deciding on where to make these cuts is a test of management intelligence and courage. Each choice carries significant opportunity costs that cannot be erased in the future by eventually restoring the



resources [Ref. 9:p. 319]. When considering when and where to make cuts, the cost of the cuts, and the opportunity cost of not making them must be considered. It is important, and in fact essential to ask, "To what purpose will the resources saved by making the cut be used?" Leadership demands that the opportunity cost of not making the cuts be articulated. The manager must explain how the organization will put the funds saved to use, and how the organization will benefit from the cut [Ref. 14:p. 616].

#### F. ALLOCATING CUTS

The allocation of cuts usually involves a tradeoff of the distribution of cuts across the organization (equity) and the maximizing long term total benefits to the organization as a whole (efficiency).

Cuts based on equity are easier, more justifiable, cheaper in the very short term, and involve fewer decisions. Across the board cuts are expedient but insensitive to the needs of the organization or sensitive to the varying contributions of various organizational elements [Ref. 9:p. 322]. When cuts are taken across the board, efficient elements will likely be penalized more than poorly run ones. Decisions will be tougher in the more efficient organization since there is less resource slack due to the element's inherent higher efficiency. [Ref. 10:p. 181]

Efficiency cuts assess the contribution of each element toward the goals of the organization in determining where the cuts in resources will occur. The more an element contributes, or the more efficient an element is perceived, the less it will be cut. Efficiency cuts, while more time consuming and much more painful to the organization to administer, better focus attention on the goals and responsibilities of the organization. [Ref. 9:p. 319]

#### G. PERSONNEL CHALLENGES DURING CUTBACK MANAGEMENT

Since people are the essential elements of all organizations, and personnel costs make up a significant portion of the budget, the treatment of personnel during cutback management is of particular concern.

If an organization is threatened, so too are its members. The decline in resources, that is, cutting into the base, destroys the assumptions upon which each member based his own personal worth. If his program is cut because it does not measure up to the new standard, then the member may also feel deficient. [Ref. 14:p. 617]

Austerity measures tend to increase workloads and at the same time create uncertainty over job security. Simultaneously, rewards for good performance are reduced or eliminated. [Ref. 16:p. 177] With increased workloads and decreased rewards, morale rapidly erodes.

When resources are scarce there are fewer promotions to motivate and retain good managers. An organization which is not expanding, but is in fact, contracting, will not attract talented younger workers. Even if they are hired, there is nowhere for them to go. Without the inflow of new employees, the "skill pool" of the organization stagnates [Ref. 9:p. 317]. This stagnating effect occurs just when the organization needs the best people available to face the fiscal crisis.

Hiring freezes are the first measure traditionally employed to cope with a reduction in resources. Hiring freezes are at best a short term strategy to buy time and assess options while the extent of the cuts is analyzed. In the long run, hiring freezes are neither efficient nor equitable. Hiring freezes take away some of management's options, most likely harm minorities who are just entering the workplace, and do not differentiate between varying rates of attrition. When resources dry up, the most skilled will move on at greater frequency than than least skilled. If the most skilled leave the organization during cutback periods, their replacements need to be hired the most urgently. [Ref. 9:p. 322]

## H. STRATEGIES FOR CUTBACK MANAGEMENT

The literature abounds with prescriptions on how to cope with a fiscal crisis. Cutting back services and expenses, improving the inflow of resources, and improving personnel management and productivity are the methods frequently cited for coping with

retrenchment. There are, however, severe challenges in transforming these generalized steps into actual practice. Many constraints and site specific factors are present.

A popular strategy when incremental cuts are implemented is to cut the less visible items. This normally involves cuts which do not appear to directly involve program activities. General administration expenses such as the department office or staff functions may be cut without appearing to affect any specific or desirable program. Natural targets include supply budgets, maintenance items, and physical plant expenditures [Ref. 11:p 31]. Maintenance activities are quick to suffer since it often appears maintenance can be deferred for a short period without impact. The result may be that deferred maintenance may turn out to be much more expensive to correct in the end [Ref. 12:p 103]. This strategy has a very distinct short term focus and is inappropriate when managers are faced with long term cuts into the base.

Longer term strategies deal with looking at the organization as a whole and making reductions which will enable the organization to best carry out its mission, or best fit with the revised mission of the leaner organization.

One method examines productivity criteria. This is difficult, but each element's marginal product per unit of input is determined. By cutting back all elements until the marginal product of each element is equal, both equity and efficiency are

achieved. While theoretically sound, the practical problem is that to accomplish this, a strong and vibrant analysis and planning staff is required, a luxury which most organizations faced with cutting back quickly forego. In reality, this technique breaks down under the "non-rational" nature of decision making in most organizations. The final cuts end up resulting from a mix of analysis and political bargaining. [Ref. 9:p. 322]

Organizations decide early if they are going to resist or smooth the cuts. By smoothing the cuts, the organization's most important functions or long term capacity may be preserved. Resistance is tantamount to stonewalling and usually serves as a counterproductive, delaying device.

An additional strategy decides on whether to take a deep gouge or small cut in organizational resources. Although the deep gouge is the best management strategy, since it enables the manager to take his cut and then start rebuilding his organization, the political realities make the thought of this unpalatable to most managers. Taking a series of smaller cuts is risky since, once the process starts, it may be hard to reverse.

Across the boards cuts have few merits other than that they are easy and relatively painless. Eventually however, when the cuts are real and prolonged, the across the board cut is no longer possible. If the situation gets bad enough, leadership must emerge, set priorities, and start cutting the lowest priority

programs. Somewhere along the path of decline, top management must shift to targeted cuts.

The imposition of resource constraints can be viewed in a positive light as a mechanism for change. Many things which were once not possible may now be attempted. While many problems develop, cutback management does present the opportunity to correct old wrongs. [Ref. 16:p. 178]

In cutback management, the uncertainty involved in making a cut is a key variable. The effects of specific cuts on the organization as a whole cannot be accurately and consistently forecast. As organizations shrink, the cost of doing less business may increase due to decreased economies of scale. [Ref. 11:p. 25] The difficult part of cutback management is to select actions that are equitable, politically feasible, effective, and still remain within the economic means of the organization. To select the optimum course of action when confronted by the necessity of cutting into the base, management must be guided by a strategy for the future of the organization.

## 1. STRATEGIC PLANNING DURING CUTBACK MANAGEMENT

Retrenching organizations must have a strategic plan. During periods of growth the absence of any clearly understood strategic plan for the organization's development might not be too serious. Resources are growing and every cause or program can be provided some support. During retrenchment, when serious cuts



are required, it is essential to have a comprehensive statement of purposes, plans, and objectives--a strategic plan. Growth can be managed on an ad hoc basis; retrenchment cannot. Ad hoc decision making, responsive to only crises and interest group pressures, can be disastrous. [Ref. 14:p. 617] Without a goal, it is impossible to structure the decision making process, the planning process will remain ad hoc.

A new strategic plan may require the organization to seek a new equilibrium size. Under resource scarcity managers have to rethink not only their requests for resources but also their organization's mission. Strategic planning provides a rational element to the difficult decision making environment experienced during cutback management.

Questions to be asked include: What now are the principal purposes of the agency, what programs should now be pursued, and how can the resources that it now has best be mobilized?

Managers must select both purposes and plans in deciding what the organization should do and how to do it. If management has a clear strategy, it has created a basis for allocating resources, evaluating performance, resolving conflicts, justifying decisions, and performing a wide variety of tasks. [Ref. 14:p. 613]

Without strategic planning, government managers, shocked by impending program cuts, may adopt several pathological decision patterns: no planning at all, rigid resistance, intensified despair and a willingness to dismiss all programs. If all else fails the

planning may provide a useful psychological crutch. [Ref. 11:pp. 52-56]

A viable strategic plan is instrumental in controlling the ramifications of retrenchment. If retrenchment cannot be controlled, the organization is caught in a vicious cycle:

- first round of programmatic cuts
- most talented personnel get discouraged and leave the organization
- productivity is reduced
- additional funds become hard to obtain with less productivity
- a second round of cuts follow, and cycle repeats

The key to controlling retrenchment is to break this cycle by quickly reaching a new level of organizational equilibrium. Management must set up the goals for the smaller organization, then plan on how to get to that size. The new plan, and strategy to achieve it, must match the revised role of the organization with the expected level of resources. The smaller size of the resultant organization doesn't necessarily mean the prime mission is accomplished any less well. It may just mean that only the prime mission is now undertaken. [Ref. 14:p. 617]

Cutting back on a program necessitates cutting back on the organization's purpose. Cutting back requires sacrifice. Only a sense of purpose makes sacrifice worthwhile. If the purpose of an organization is being curtailed, it is all the harder for its members to sacrifice. [Ref. 14:p. 618] An explicit strategy can provide a

sense that the organization has at least some control over its destiny, and hence, raise the morale of the organization by clearly defining its new purpose. [Ref. 11:p. 80]

While there is no shortage of theories or guidelines for cutting back, successful cutback management inevitably proves more difficult to implement than to read or write about. Managers in California found this to be the case when trying to cope with the limited resources following the passage of Proposition 13. There are, however, valuable lessons to be learned about the difficulties of really cutting back by studying the California experience.

#### IV. THE IMPACT OF PROPOSITION 13

Proposition 13, formerly referred to as the Jarvis-Gann Property Tax Initiative, was passed overwhelmingly by the people of California on 6 June 1978. Less than a month later, on 01 July, the initiative became law. Proposition 13 cut property taxes by more than 50%, set limits on future property tax growth, and established stringent requirements for any future tax increases [Ref. 17 p. 4].

Though the implications of the initiative were far reaching, termed by many the most significant fiscal act in California's history, of principal concern was the loss of over \$7 billion in revenues to local governments annually. [Ref. 18:p. 36]

To ease the immediate impact of the loss of property tax revenue, the state distributed \$5.1 billion dollars from its surplus, with \$4.2 billion of this "bailout money" earmarked as immediate financial aid to local governments, and the remaining \$900 million held for emergency loans to local government. [Ref. 18:p. 184] Even with the bailout money from the state, local governments across the state faced a revenue shortfall of over \$2 billion dollars. The manner in which local managers coped with this quantum shortfall, a shortfall which cut into their budgetary base, provides an opportunity to observe the actions of public managers in an environment characterized by scarce resources.

The public backed Proposition 13 for its short term advantages. They balanced the benefits of decreased taxes against the inevitable reduction in public services. Since lower taxes were easier to grasp and promised immediate financial relief, Proposition 13 was supported at the polls. The negative impact on the public caused by reductions in locally provided services, however, could have been much more significant in the long run than their increased "wealth" due to lowered taxes. It was up to local government to provide acceptable levels of services with reduced resources. Local managers had entered an era of cutback management.

Local responses to Proposition 13 varied tremendously throughout the state. The variance was a function of how dependent each government had been on property taxes as a source of revenue, the nature and level of service provided prior to Proposition 13, the expectations of clientele, and ultimately, the approach each locality's managers took in making the necessary adjustments. In compiling data on local government responses, three sources of data emerged. The responses of the City of Oakland make up much of the available data base. Secondly, the responses of both the City and County of Los Angeles are well documented. Finally, generalizations concerning the state as a whole, and significant local measures or exceptions to the norm, have been compiled.

## A. THE LOSS OF LOCAL GOVERNMENT'S AUTONOMY

The aid from the state, the so-called "bailout" money, was not disbursed without "strings". For instance, to receive aid, local governments could cut neither police nor fire service below "Pre-Proposition 13" funding levels [Ref. 18:p. 184]. Counties which received state money had to ensure that health services did not receive more than their share of the cuts. Pay freezes were also required and if pay was not frozen, very strict provisions for merit increases were constituted [Ref. 19:p. 532].

Clearly, relations between governmental units were affected by Proposition 13. Relationships migrated toward much greater centralization with a resultant decrease in local control. The result was that managers at the local level had much less power to effect their own fiscal policy. [Ref. 19:p. 535]

## B. ADJUSTING TO PROPOSITION 13'S ENVIRONMENT

The dominant response of California governments to Proposition 13 was attempting to maintain organizational continuity, the status quo. Many localities in California initially attempted to incrementally reduce their budgets and match lower expenditures with reduced revenues. Programs were cut without review of their merits, but in strict accordance with the principal that all units of local government would be cut across the board by the same percentage.



The across the board approach could not be sustained. Though all departments/programs would willingly go along with incremental increases to their budgets, the same could not be said for incremental reductions. Agencies with political clout and influence would not settle for the same proportion cut as another agency lacking powerful clientele. The end result was that the budget process became more centralized, with decision making authority migrating up the chain of command to levels best suited to balance and prioritize competing claims for resources. [Ref. 20:pp. 39-40]

The perceptions of decision makers played key roles in shaping organizational responses to Proposition 13. Many managers responded by attempting to "routinize" the impact of cuts necessitated by Proposition 13 by viewing the cuts as just another fiscal crisis [Ref. 16:p. 178]. By failing to adopt proactive measures, managers postponed the inevitable and further complicated an already complex management problem.

The response to Proposition 13 in Oakland, while conforming to the statewide of norm of maintaining the status quo, took a different, seemingly more proactive approach. There was little if any effort made to downplay the problem of the impending cuts, and most strategies employed were straightforward. There was never a stage of across the board cuts, with cuts in Oakland targeted very early in the cutback period.[Ref. 21:p. 623] The general approach was to delay capital expenditure and shift those funds to maintenance, to use federal funds where possible to make

up for lost revenues, to eliminate programs within departments, and finally, as a last resort, to cut personnel.

While conforming to the theoretical approach to cutback management, Oakland's cuts were not, in all cases, as sound they might seem. For example, the priority of cuts was formalized only after they included the city council's political preferences.

Similarly, in pursuing the cuts, rational analysis did not always provide the basis for determining the programs to be effected. Most cuts were implemented subtly so that recipients were unaware of the scope of the cuts [Ref. 21 p. 625]. In essence, programs were cut so that public opposition was minimized.

In the end, political considerations dominated the adjustment to life after Proposition 13. Managers had to balance the public's call for cutting back with local organizations' concerns for maintaining social programs. Proposition 13 modified the culture of policy making. Austerity and reliance became the new buzzwords with trade-offs and constraint more important than progress and reform [Ref. 20:p. 25]. Local programs were kept afloat, spending was reduced, budgetary pain was doled out unevenly as programs, and cuts, were prioritized. High visibility services suffered less than those with specialized clientele. [Ref. 20:pp. 58-59]

As was evident from the California experience it is much more difficult to implement strategies for cutback management than it is

to list possible methods with which to cope. The exact approach of a specific organization involved considerable tradeoffs among choices governed by constraints, capabilities, and the overriding strategy of that organization [Ref. 16:p. 178].

## C PLANNING FOR THE CUTS

A fundamental ingredient of cutback management is effective long range planning. The City of Oakland's planning efforts were responsible to a large degree for Oakland's technically correct approach to meeting the constraints imposed by Proposition 13.

Six months before Proposition 13 was passed, Oakland prepared a financial analysis of the impact of Proposition 13. The initial report projected a revenue loss in excess of \$35 million dollars. After reviewing the report, the city manager prepared an alternate budget, whereby the lost revenues would not be replaced. In formulating the budget, policy alternatives were developed to give the city council an appreciation of the impact of a \$35 million cut. While the initial plans were based on a worst case scenario, a scenario which never came about, the city council and the citizens of Oakland began looking beyond the short term panacea of reduced taxes. [Ref. 18:p. 36] The advanced planning:

- served to alert officials and managers to the legal, fiscal, and operational impacts of Proposition 13
- served to get an alternate budget generated on which to "quantify" the impact of Proposition 13

- educated Oakland's citizens to the impacts and permitted a better informed choice between less tax and fewer services [Ref. 18.p. 45]

Long range planning, commencing as soon as Proposition 13 qualified for the ballot, and an aggressive communications plan enabled Oakland to better cope and its citizens to participate in the process of cutting back. Oakland's response contrasted sharply with most local governments which waited until election day before examining the impact of the initiative. This wait and see attitude left little time to plan, refine, and implement strategies. Lacking information to the contrary most Californians believed the initiative would only "reduce the fat" in local government when they voted so overwhelmingly for Proposition 13. [Ref. 18.p. 184]

#### D. PROBLEMS IN DEVELOPING STRATEGIES

In arriving at specific strategies to maintain the organization's status quo while consuming less resources, some common problem areas emerged.

First, many organizations failed to take adequate action to confront the new, resource constrained environment. For organizations which routinely faced marginal resource shortfalls, the ramifications of Proposition 13 were regarded as "just another crisis." Since the organization had endured countless other budget crunches, the managers took a "business as usual" approach to the crisis spawned by Proposition 13. Therefore, managers had a very difficult time in facing up to the magnitude of Proposition 13 cuts,

that is, cuts into the base, and the need for new strategies to cope with them.

Many organizations made minimal cuts in the popular or high visibility programs. In many areas major cuts were made, but they tended to fall on programs which did not receive public attention.

It also became difficult, at the organizational level, to establish between essential and non-essential services. Programs which at one time had been nice-to-have extras had succeeded in building up a constituency and had become intermeshed with the organization on the whole. In attempting to "cut the fat", the fat was always someone else's program.

With the pay and hiring freezes, personnel cuts, and program reductions, many organizations were placed in a position of being able to marginally meet current responsibilities but unable to meet future commitments. In particular, long range plans and planning frequently became victims of the cuts. For instance, the Alameda County Flood Control District's capital construction plan was rendered obsolete due to financing limitations brought on by Proposition 13 [Ref. 16:p. 176]. The impact of this sacrifice of long term planning for short term survival is still not clear.

#### E. COMMUNICATING WHEN RESOURCES WERE SCARCE

Fostering communications during cutback management is essential for the leadership of the organization. Again, Oakland's



experience serves as a model. Even before Proposition 13 was approved at the polls, the city prepared a short publication "Public Service Impact Statement", describing in detail the Public Service reductions which would result from the anticipated \$35 million revenue loss. The document was distributed by the city council, the news media, and interested community groups. Notices were also posted on public facilities, indicating the impact on that facility if the cuts were necessary. Numerous public hearings were held. [Ref: 16 p. 5] These actions enabled Oakland's citizens to grasp the real significance of the "other side of property tax reduction". The public was then able to equate the loss of a specific service with the benefits of the tax cut if the Proposition was approved. Due in part to the communications by the city of Oakland, Oakland was one of the few California cities which voted against Proposition 13.

## F. SETTING PRIORITIES

Once it became apparent that across the board cuts and a business as usual attitude would not suffice in the wake of Proposition 13, managers throughout California began the difficult process of prioritizing their programs and deciding on where and how much to cut.

In Oakland, all department managers were initially given a target figure (35% of their discretionary budget) to cut. In reaching this level of cuts, managers were given the authority to



rank programs to be reduced or eliminated to meet the 35% departmental reduction. This guidance, was of course, caveated to ensure compliance with constraints imposed by the state, and constraints which accompanied most federally funded programs [Ref. 18:pp. 40-41] The ranked programs were then submitted to the city where they were ranked with programs from all departments. Unlike many cities, the list was actually used as a basis for the cuts. [Ref. 21:p. 623]

In the City of Los Angeles, 70% of the spending was in "top priority" programs which received some degree of protection. Thus the remaining 30% of the programs were subjected to more severe cuts. For example, libraries and parks opened later and closed earlier with most reducing hours from eight to five hours per day. Maintenance of streets was scaled back, with repaving standards going from once every 40 years to once every 120 years!!! The capital improvement budget was also dramatically reduced. Only \$9 million was available for funding \$300 million in identified needs [Ref. 20:p. 116].

Cutting programs became very difficult because so many sources of potential cuts were "protected". In the end, public safety was favored at the expense of public works, health, welfare and social programs.

## G. STRATEGIES FOR MANAGING THE CUTBACK

Once the necessity for cutting back was acknowledged, several general strategies appeared most attractive in matching the reduced revenues with organizational expenditures.

Perhaps the most popular was in replacing the lost tax dollars with revenues from new fees or charges for services. Since this option has little applicability to the thesis, it will not be discussed further.

A second approach was to pay later, in other words, to defer. This involved not only stretching out the payment of bills, but also deferring projects, and maintenance as well. Capital expenditures were particularly vulnerable to this with a philosophy of "what voters can't see, they are less likely to miss" often carrying the day.

Since people make up the heart of any organization, and account for such a high percentage of its expenses, protecting the payroll was central to all strategies. Hiring and wage freezes were readily implemented to save jobs. Reliance upon attrition, often accelerated, avoided layoffs in most cases. Even by concentrating on protecting the payroll, government administrators could not prevent the eroding moral and quality of public servants. More importantly, they could not make government more attractive for new talent. [Ref. 20:pp. 41-42]

## H. THE MANNER IN WHICH SPECIFIC CUTS WERE MADE

Programs receiving the greatest percentage of cuts were libraries, parks, cultural activities, summer school and adult education. Counties, on the whole, cut library spending 12% and cultural/recreation expenditures by 18%. Cities cut both categories of programs about 8%. [Ref. 17:p. 19] In Oakland, 2 bookmobiles were eliminated and libraries reduced their hours 20% during summer months. Library cuts mostly reflected reduced services, with limits placed on the number of books one could request from other branches, and increased the time for books coming in on inter-library loans. [Ref. 17:p. 19] Museums cut back their hours by 13% and the number of county park rangers across the state was reduced by 50%.

Even with severe cuts to the recreation programs, few parks were closed in either counties or cities. Instead, there were fewer supervised activities conducted by recreation department staffs. Selected activities were terminated and park maintenance suffered. In Los Angeles county, park grounds and facilities maintenance was decreased, and cleaning was discontinued on weekends.

Deferring maintenance became the norm under Proposition 13. As one disgruntled official commented in 1983:

Five years of public works cost cutting have left California with a shabby legacy of pitted streets, chronically flooded intersections, dingy public buildings, postponed road repairs, phased out landscaping, eliminated street sweeping, dimmed street lights, and the thinned out work crews. [Ref. 20:pp. 168-169]

Throughout California, local government spending on street-related needs dropped 11.3% from 1973-1983. With less money to complete a variety of maintenance tasks, the emphasis in maintenance shifted to making superficial repairs (patch and sealing) instead of resurfacing. In by 1980, two northern California counties had permitted over 50 miles of paved roads to revert to gravel since they did not have the money to repave them.

In addition to less money being spent for road repairs, other maintenance programs also suffered. In Los Angeles commercial area street sweeping was eliminated, and machine sweeping in residential areas was dramatically reduced. The elimination of weed abatement programs created additional fire hazards. In 1982 San Jose workers were required to place buckets under leaks in City Hall since there was no money available to fix the leaky roof. Oakland's public works budget has shrunk 46% in real dollars since 1978. [Ref. 20:p. 168-169]

Hard hit too were capital improvements. Counties, in particular, found that funding of capital needs such as roads, bridges, hospitals, etc. became much more difficult. In many counties spending on capital improvements was deferred, with funds which had been budgeted for capital improvements diverted to fund current services programs. [Ref. 22:p. 17] In Los Angeles, 20% of the capital improvement funds for streets were

diverted to maintenance programs between 1978-1983 [Ref. 20:p. 173].

Politics were usually more important in determining the size of cuts to police and fire departments. Although in many cases the police and fire stations were more heavily manned than other departments, clientele pressure, strong union organization, and stringent conditions in the state's bailout programs protected most police and fire departments from experiencing meaningful cuts. When departments were cut, law enforcement duties were assigned to officers from the services divisions. In some cases, administrative duties were contracted out. In other cost cutting measures, officers were given additional responsibilities to make up for manning shortfalls. Treatment of fire departments proved similar.

The most immediate service reduction following Proposition 13 occurred in education. Many schools in southern California immediately cancelled summer school, and cut the salaries of clerical staff during the summer months. In general, schools tended to eliminate the peripheral programs. In addition to summer school, adult classes were also cut while most schools were able to maintain the quality of their normal classes.

General and administrative expenses also proved tempting to budget cutters. At first, communities deferred expenses, reduced secretarial staffs, drew on surplus funds, and left jobs vacant longer than usual. Other communities tried unconventional



methods to save money such as combining law enforcement, sharing city attorneys, and combining transport systems. [Ref 20:p. 114] Fire alarm boxes were removed, street lights were dimmed, security guards cut back, many city switchboards were cut, and telephone information assistance reduced.

The most extensive cuts occurred in programs and personnel which were not providing direct public services. In Los Angeles County personnel training services for other departments were eliminated, and the county comptroller reduced accounting assistance provided to other agencies. Los Angeles County only replaced emergency vehicles instead of replacing all county vehicles as originally planned and budgeted for. In Los Angeles, where administrative expenses were cut 27%, the planning and data processing departments absorbed large percentages of the cut [Ref. 17:p. 23]

Localities looked for additional means to save on general expenses. One solution was to contract out for services. Both the City and the County of Los Angeles, amended their charters in 1978 to permit work to be contracted if the work could be performed by contractors in an economic manner. A report from the city administrative officer revealed that up to 7000 jobs could be eliminated by contracting. [Ref. 23:p. 19]



## 1 THE IMPACT ON LOCAL GOVERNMENT EMPLOYEES

Frustrations, tensions, and difficulties all characterize the environment of local government personnel in the wake of Proposition 13. As has been noted, a principal strategy in coping with Proposition 13 was to protect the payroll to the maximum extent possible. Attrition and hiring freezes evolved as the principal means to do this. Still, however, in cutting back, some jobs were lost.

For example, California state government grew by 5% from 1978-84. Local government, hardest hit by Proposition 13, reduced personnel by 4.5% during the same timeframe. [Ref. 20:p. 26] While some of these cuts resulted from Proposition 13, others came from the elimination of positions due to the termination of federal programs or grants.

Employees were quick to feel the brunt of the decreased resources. Many agencies imposed pay and hiring freezes. Pay freezes were eventually relaxed as the true impact of Prop 13 began to emerge. In some organizations even mostly symbolic benefits were eliminated. A statewide uproar resulted when an employee in Alameda county failed to receive a relatively inexpensive 10 year service pin due to the austere climate. [Ref. 16:p. 177]

Even prior to the vote on Proposition 13, morale among governmental employees was low. In Oakland, termination notices were mailed to over 1300 employees based on the initial projections

of cuts by the city manager. While the notices were soon recalled, morale plummeted due to uncertainty over job security.

In some cases, it was necessary to lay-off personnel. In Los Angeles the largest personnel cuts occurred to those involved in recreation and culture activities, road maintenance, and social services. Health, fire and police experienced the fewest cuts. [Ref. 23:p. 15]

In Oakland only 227 out of the original estimate of 1300 positions were cut, and all but 70 were vacant due to the early implementation of the hiring freeze. Of the 70 employees actually cut, one was management and the rest were semi-skilled laborers [Ref. 18:pp. 130-131]. To compensate for the lost positions, either other employees picked up additional responsibility or the job was not done.

A common practice was to expand the job scope of many highly paid supervisors. For example, the Los Angeles County Chief Administrative Officer was for a while forced to wear three hats: chief administrative officer, personnel director, and the head of animal control. [Ref. 20:p. 115]

Following the freeze on salaries of local employees, a condition imposed in return for state bailout money, employee attrition skyrocketed. In Santa Clara County the attrition rate was three times higher than expected. In San Diego County 9 of 30 department heads left in the first 3 months following the enactment of Proposition 13. In San Francisco area hospitals, so

many left to seek employment with the higher paying private hospitals, that those remaining were left with 65 hour work weeks [Ref. 24:p. 3].

Not only did the more highly skilled personnel leave, but it also became more difficult to attract highly qualified replacements. The resulting mix of personnel, fewer in total and less skilled, meant that services could no longer, in many cases, be performed at the same level as before Proposition 13. The freeze on public pay lead to lower employee productivity since the better workers moved on to better paying jobs.

Labor relations suffered significantly from the series of cuts, freezes, and retractions brought on by Proposition 13. Immediately following the passage of Proposition 13 there was a very rapid decline in employee morale. Shortly thereafter, the mood of the employees shifted toward antagonism. This shift lead, ultimately, to greater union activism, increased militancy, and greater organizational conflict. Those most affected by this new militant attitude were the young county workers [Ref. 23:p. 16].

As the attitudes shifted toward militancy, pressures from employee groups increased. Threats of work actions, and actual occurrences of such actions increased [Ref. 25:p. 204]. Organizational conflict, as expected, increased following the passage of Proposition 13.

## J. DECISION MAKING IN THE WAKE OF PROPOSITION 13

As with most other facets of government, decision making became more difficult in the Proposition 13 era. Decisions no longer resulted in an element of an organization gaining. Now, for one organization to win, another would have to lose. Worse, decisions were frequently biased toward the short term. Due to cuts and inflation in the late 1970's many managers in Los Angeles County found a dramatic erosion in their decision making power that left the county with little ability to "respond to community needs." [Ref. 20:p. 115]

In Oakland, the city's planning department spent more time reacting to current problems and less time on long range planning. Decisions became based on less comprehensive studies with greater time required to respond to emergent problems.

In San Diego County, the decision and planning processes were streamlined, with less background and fewer studies available on which to base decisions.

Counties which were forced to depend on both state and federal sources of funding found they were hard pressed to address future needs in a systematic manner. With the additional funding, county managers' decisions were often based on satisfying constraints rather than on what was locally determined to be the best solution [Ref. 22:p. 17].

## K KEY ASPECTS OF CALIFORNIA'S RESPONSE

The response by California financial managers to quantum budget shortfalls resulting from Proposition 13 in many cases fit the classic approaches detailed in the literature. Initially, efforts were made to make the cutting process equitable. Reductions took the form of deferrals, but as shortfalls continued, programs began to be eliminated. Maintenance programs and organizations not directly serving the public were the first to feel the cuts, once cuts started to be prioritized. Organizations directly in the public eye, such as fire and police services, fared better.

Local government employees experienced both pay cuts and hiring freezes. Many quit and those that remained suffered from poor morale, with many turning militant in their relations with management.

Finally, organizations found they were more dependent on higher authority. The decision making and planning functions had become more centralized.

The way managers in California faced the challenge of Proposition 13 provides a vivid example of the actual process of cutting back. The responses of those involved can now, with hindsight, clearly be studied. The reactions to Gramm-Rudman, the manner in which financial managers are coping with the cutbacks, and the ultimate outcome of the various strategies being employed are not yet as clear.

To understand how DOD managers are facing the Gramm-Rudman mandated cuts, attention will now be directed to the results of the Gramm-Rudman questionnaire



## V. RESPONSES TO GRAMM-RUDMAN BUDGET CUTS

The order to sequester \$11.7 billion dollars from the FY-86 budget originated in Washington, but was executed in the field. Amidst the confusion, uncertainty, and pessimism which greeted the sequestration mandate, came a realization from activity financial managers that they were going to be the ones to carry out the cuts. As one financial manager put it:

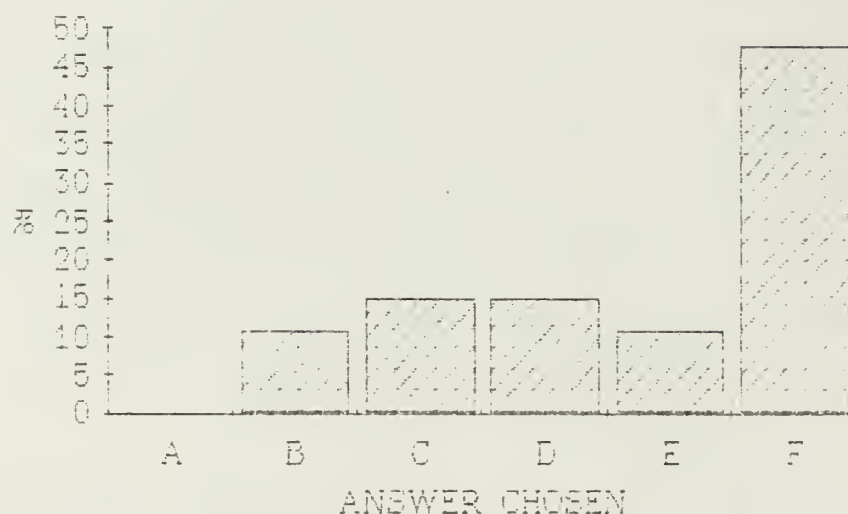
If you like challenges this is the place to be!

Of particular interest is how these managers came to grips with the necessary cuts, how they planned, prioritized, and decided on where and how much to cut. The impact of the cuts on both the activity's mission and its people is also important. Equally important, especially when attempting to analyze the long range impact of Gramm-Rudman is the manner in which Gramm-Rudman affected command relationships of the participants.

### A. THE OVERALL IMPACT

Gramm-Rudman clearly impacted on the way in which activities and their managers do business. Figure 5.1 provides, by percentage, the responses to a question asking managers to describe

the impact on his or her activity resulting from FY-86 Gramm-Rudman budget cuts



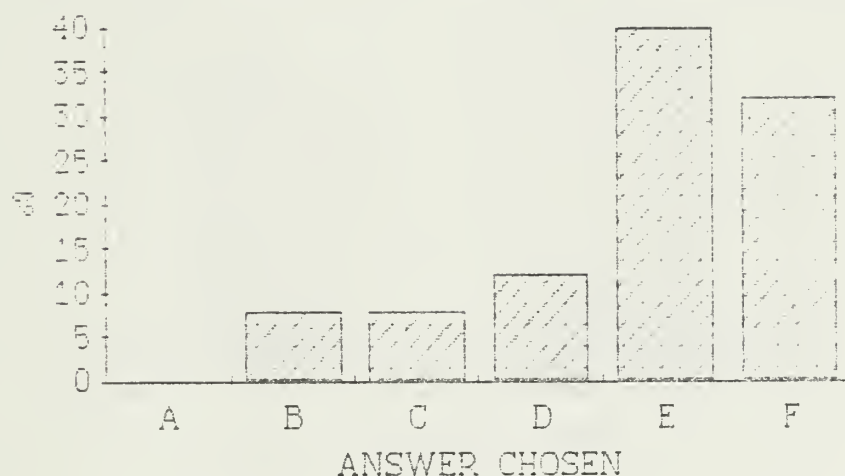
KEY TO RESPONSES:	%
A. Significantly Positive	0
B. Positive	11
C. No Impact	15
D. Negative	15
E. Significantly Negative	11
F. Can't sustain operations at this level	48

Figure 5.1 The impact of Gramm-Rudman.

The majority of those surveyed observed that the impact on their activity was, to some degree, negative. Far and away the most common response, probably reflecting the traditional military "can do" attitude as well as anything else, was that the activity got by this year, but that it could not sustain operations at the reduced funding levels. This feeling was reinforced when nearly

53% of the managers replied that this year they were able to provide services at previous levels, but that the previous level of support could not be maintained. One respondent stated:

The impact was not so severe that the operational requirements were not met. This does not mean that the Gramm-Rudman act will not have heavy impact in the future.



#### KEY TO RESPONSES:

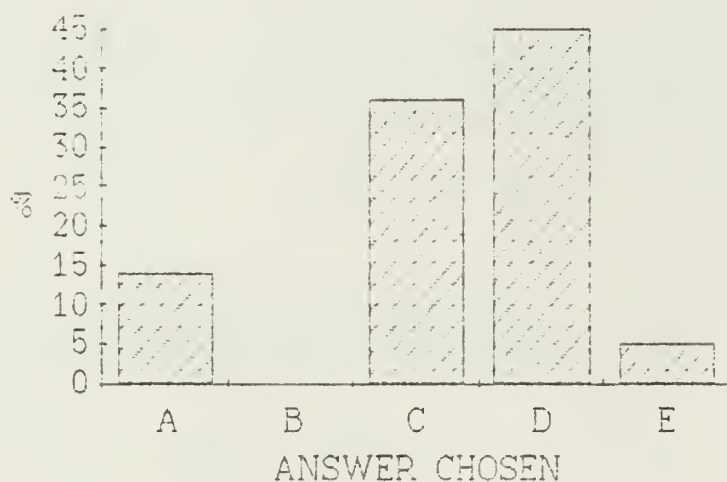
	<u>%</u>
A. Deleted	0
B. Reduced	8
C. Deferred	8
D. None of the above	12
E. Deleted, Reduced, and Deferred	40
F. Reduced and Deferred	32

Figure 5.2 Requirements have been \_\_\_\_\_ to keep operating budgets within revised levels.

When questioned on whether, in general, requirements were being deleted, reduced, or deferred to keep operating budgets

within revised guidelines, two thirds of the managers indicated they were using a combination of strategies with most services being reduced or deferred. Figure 5.2 provides a graphical presentation of the responses.

When pressed to identify the principal strategy employed to cope with reduced budgets, the most predominant strategy proved to be that of deferring expenses, as indicated by Figure 5.3.



#### KEY TO RESPONSES:

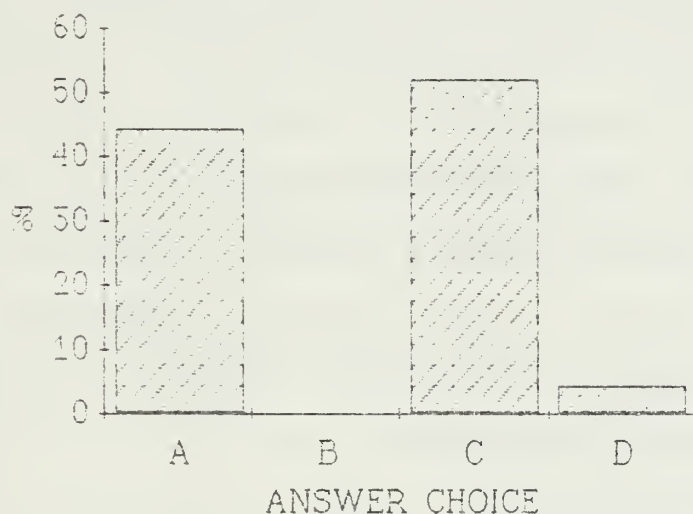
	%
A. N/A	14
B. Deleted	0
C. Reduced	36
D. Deferred	45
E. No technique dominated	5

Figure 5.3 If more than one strategy was employed, what was the "principal" strategy?

In addressing the role that deferrals played in FY-86 cutback strategies, one comptroller summarized:

Gramm-Rudman cuts only became survivable because the hiring freeze reduced the payroll and we deferred maintenance of real property and minor construction.

As Figure 5.4 indicates, in reducing programs, managers generally focused on short term cuts or on a combination of both short and long range cuts



KEY TO RESPONSES.		%
A	Short term cutbacks	44
B	Long term cutbacks	0
C	Mix of long and short term cutbacks	52
D	No cutbacks	4

Figure 5.4 Reductions at your activity have consisted of \_\_\_\_\_

Most cuts were directed at the program's or expense category's margin. While these marginal cuts enabled the financial managers to achieve the necessary budget reductions this year, there was general agreement that attempting to use the same strategy in

FY-87 and beyond would not prove as fruitful. Almost one third of those responding stated no marginal cuts could be made in FY-87. The remainder of the respondents indicated that some marginal cuts could be made in FY-87, but marginal cuts could not be employed to the extent or with the success of this year.

## B PERCEPTIONS OF THE FISCAL ENVIRONMENT

An element integral to an organization's success in carrying out cutback management is its overall perception of its fiscal environment. This perception comprises attitudes and perspectives on both the severity and the longevity of the situation which necessitates cutting into the organization's budgetary base. Generally, there are three postures which an organization may take in facing retrenchment.

An organization may treat the cuts as another in a series of "routine" fiscal crisis. A classic example of this attitude is provided by one manager who stated:

It is part of the navy drill to take away ~~it~~ from you in the first two quarters and give it all back in the last two quarters. Some different excuse is used every year. This year it happens to be Gramm-Rudman. We spent a lot of man-hours researching, meeting, staffing, arguing, etc., to come up with \$1,500,000 in cuts. We fired over 40 people, let buildings deteriorate, and destroyed morale in April. By August, our claimant had returned all of the dollars to us. Now we have to rush to spend it by the end of the year. We will spend it on things we need, but we won't spend it as wisely as if we had known at the beginning of the year. Don't blame Gramm-Rudman, its the "Navy way!"



A second approach is that the cuts may be considered a bona fide short term crisis, but that over the longer term, the organization believes relief will be provided. This feeling was well articulated when one manager lamented.

Most personnel were unable to accept that Congress had reduced the operating funds. Officers and CPO's truly believed that if they needed more funds, they (the funds) were there. It took a very long time to realize the impact of Gramm-Rudman and resistance was high. Many still believe it won't last no matter how hard you try to explain it.

The third alternative is to accept the situation requiring quantum cuts as significant and one that will persist into subsequent budget periods.

The posture taken determines the course of action and strategies employed in facing the cutbacks. It is quite possible, in fact likely, that over time, an organization will find itself confronting its environment from all three perspectives. In the end, however, to succeed in cutting back, an organization must face the fiscal facts and dig in for the long haul. Management must strive to reach the third stage, that of acknowledgement, as soon as possible since only strategies designed to deal with this situation will prove useful over the long term.

The majority of the managers responding still feel their organization is attempting to survive in the short term with expectations for long term financial relief. Over a third of the respondents feel, however, their organization is now in the final

stage of posturing, and that it is coming to grips with Gramm-Rudman as a long term force affecting their budgets.

The persisting belief that Gramm-Rudman represents a short term threat, for many, is reinforced by the influx, during the August timeframe, of additional funds which had previously been withheld by higher authority. A financial manager showed his concern for this situation when he responded:

In FY-86 we have ended with more dollars than in previous years, not less. Initially we were cut in March, but now we are richer than ever. In March we were broke, now we are rolling in dollars. I am very concerned about FY-87 though, because I do not think there will be a bail out like this year.

Undoubtedly, it is difficult to build organizational credibility regarding fiscal constraint when so many in the organization expect that under some guise, the funds will always show up in the end. While no one would suggest that funding, if available, be withheld just to maintain organizational credibility, it is apparent that turning loose the fiscal floodgates in a business as usual approach has hurt and will further inhibit managers from believing and thus optimally managing constrained resources.

### C. CHANGING ORGANIZATIONAL RELATIONSHIPS

One aspect of cutting back is that decisions tend to become centralized at a level where alternatives can best be judged from an organizational perspective. The reality of this was illustrated when one respondent pointed out that marginal cuts were now affecting mission operations and thus, budgetary decisions had been

elevated to a higher level. With increased centralization, higher authority gains more control, and with more control, one expects an increase in the amount of guidance received. Though by no means unanimous, the data bears this out. Nearly 60% of the activities responding indicated that the amount of fiscal guidance for FY-86 received from higher authority had increased. When illustrating how control had shifted to a higher level a manager recounted

Each time we say we can't because of lack of funds, direction from above is 'do it anyway, and drop something else which doesn't effect them.'

Another stated:

More questions are coming in on costs. Overhead costs, travel, and overtime are being more closely reviewed at headquarters.

The remaining respondents indicated no change in the amount of fiscal guidance they received, while no activities felt they were receiving less guidance. Correspondingly, 48% of those surveyed felt that financial control exercised by higher authority had increased while the remainder felt the level of control had remained constant.

In examining the amount of discretion an activity was provided in implementing FY-86 budget cuts, the most prevalent response, 45%, was that the activity was given budgetary discretion within Activity Groups, a category representing a broad spectrum of related activities. For instance, if the activity group

represented Base Operations Support, alternatives from a wide range of activities such as administration, supply, and shore based support could be considered when cuts were required. Lesser numbers of activities had varying degrees of less discretion, ranging from discretion within a sub-activity group, such as the administration activity under Base Support Operations to discretion at the expense element only. Just under 19% stated they had no flexibility at all, with all of their activity's cuts being specified.

#### D PLANNING, PRIORITIZING, AND DECISION MAKING

As both the literature on cutback management suggests and the California experience proves, financial planning takes on increased and vital significance during periods of cutback management. An awareness of this existed among the financial managers surveyed. One stated:

Planning has taken on a much greater role in the budgetary process. There is an increased awareness on the impact of today's decisions on the out-years. Opportunities to defray out-year expenses are seized when able and new program growth is carefully controlled.

The benefits of advance planning did not escape the managers surveyed. While few would dispute the up front cost of planning, the results, when articulated effectively, can be dramatic, as one respondent explains:

We have been successful in getting cuts restored. Early on this command briefed the impact of the cuts to higher authority. We outlined the impact of shortfalls on our mission. This

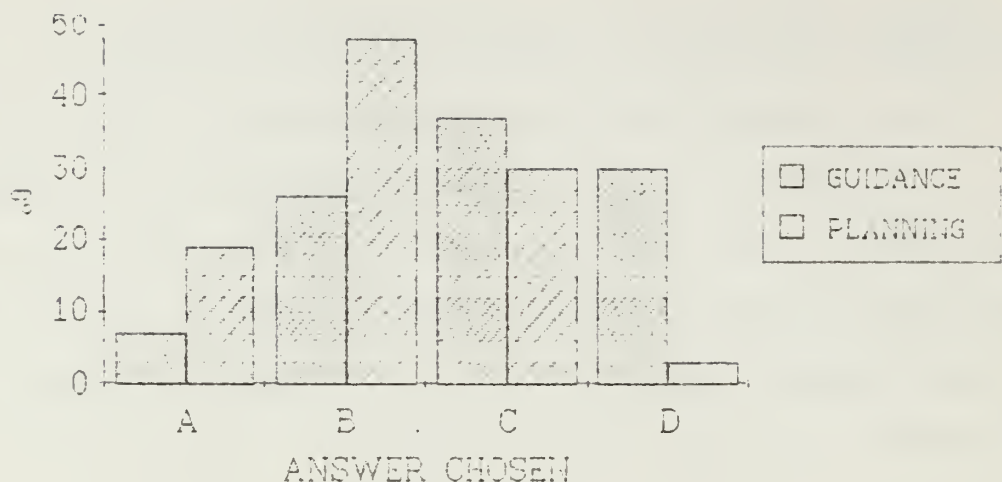
strategy was good, but required a lot of additional time planning and preparing briefings for senior leadership

In facing Gramm-Rudman most activities surveyed have left their planning staffs intact. Almost 50% stated that while the size of the staffs have not been increased, more line managers were now involved with the financial planning function than had been prior to Gramm-Rudman. Others related that the comptroller's assistants were much more in demand now with more required of them. Only a very small percentage of respondents indicated that their planning staffs had been cut.

When considering the adequacy of the planning staffs, over 75% felt that the ability of the financial planners was adequate. Many did, however, acknowledge limitations in their ability to conduct formal program analysis, often necessary in the face of difficult allocation decisions encountered when cutting back.

In addressing the execution of the FY-87 budget most activities indicated they were already planning for a lower budget than originally anticipated. As Figure 5.5 indicates, the recognition of the need for planning for a reduced FY-87 budget at the activity level was in contrast to the limited amount of guidance on potential FY-87 budget cuts received from higher authority.

Looking farther ahead, past the FY-86 cuts, over 60% of the activities have considered the inevitable impact of deficit reduction when preparing their FY-88 budget submissions. Less than 20% have done so via or in response to a formal mechanism such as



KEY TO RESPONSES:

A Extensive  
B Moderate  
C Limited  
D None

GUIDANCE %

7  
26  
37  
30

PLANNING %

19  
46  
30  
3

Figure 5.5 What degree of guidance/planning have been received/conducted in view of the high potential for cuts in the FY-87 operating budget.

reduced control numbers. Alarminglly, 37% have not yet planned on reduced resources stemming from future deficit reduction measures

A significant majority of those responding indicated that when initially considering the manner in which to implement the FY-86 cuts necessitated by Gramm-Rudman, the activity's mission and critical functions were reviewed. This review appears to have been instrumental in almost 70% of the cases when determining which areas to cut. Generally, all programs in the base were considered, in aggregate, for cutbacks, with newly instituted



programs receiving the same consideration as the more established programs

Functional categories aggregate many lesser budgeting areas and serve as a significant groupings for budgeting decisions.

Functional categories are represented by:

- MISSION OPERATIONS
- ADMINISTRATION
- MAINTENANCE OF MATERIAL
- BASE SERVICES
- MAINTENANCE OF REAL PROPERTY
- UTILITY OPERATIONS
- SUPPORT CATEGORIES (various)

Of the commands surveyed, 80% prioritized cuts among categories with the remaining activities strictly observing across the board cuts. When prioritizing cuts, by category, Maintenance of Real Property was, on the average, the lowest priority category, e.g., the first to be cut. This was well illustrated by one respondent who said

I am afraid we will keep our airplanes flying but from air stations that are falling down around our heads.

As could be expected, Mission Operations was normally assigned the highest priority, the last category to be cut. Administration and Support categories were the next lowest priority categories with the remainder ranking about the same. Table 6 illustrates the average priority assigned for cutting each functional area

TABLE 6

PRIORITIES OF CUTS AMONG FUNCTIONAL AREAS

<u>Functional Category</u>	<u>Average Priority</u>
----------------------------	-------------------------

Maintenance of Real Property	2.13
Administration	2.69
Support Categories (various)	3.07
Utilities	3.60
Maintenance of Material	3.64
Base Services	3.69
Mission Operations	4.41

The survey also examined how funds within a functional category were cut. These expense elements further break down funding into specific areas. Expense elements of a functional category include:

- civilian personnel
- travel of personnel
- utilities and rent
- maintenance of purchased equipment
- printing and reproduction services
- purchased services
- supplies
- equipment

Although there was variance in regard to the priority placed on each element within a functional category, general trends were evident. Travel, purchased services, and supplies were normally cut fairly early within a category. Likewise, civilian personnel.

and utilities and rent were normally the last to be cut when differentiation was possible.

No clear trend was identified with regard to the motivation behind reinstating programs after they had been cut, although certain categories of activities were reinstated more often than others. The most frequently reinstated category was Mission Operations, followed, distantly, by Maintenance of Real Property Administration, Supply categories, and Base Services, when cut, were the least frequently reinstated categories or activities.

When programs were reinstated the most common reason cited was that funding, which previously had been cut, had been restored. Neither the severity of the reduction on operations nor pressure from clientele were overriding considerations when reinstating previously reduced programs.

The clear majority of respondents agreed that under fiscal austerity the decision making processes were both more difficult and took more time. A common sentiment expressed was that during times when funding was more plentiful, funding decisions were much easier and management had more flexibility. Only a small percentage of respondents felt that the decision making process had not been affected by cutting back.

## E COMMUNICATIONS WHEN CUTTING BACK

Communications are essential to effective management and are integral to an organization. They are not superimposed on the

structure, but are part of the structure. In particular, communications take on added significance during periods of organizational change or adversity. \* When examining the level, quality, and nature of communications relative to Gramm-Rudman mandated budget cuts, both internal and external communications were reviewed. In general, respondents were positive about internal communications, but were critical, in varying degrees, toward communications with higher authority.

Significant majorities, 78 and 65%, felt that interaction and liaison between the commanding officer and department heads, respectively, had increased, with 40% in each instance terming the increase significant. No respondents felt that communications between the comptroller and the commander or department heads had decreased. Not only were the line managers more involved in the process, but they also demonstrated increased awareness of the importance of planning and executing budget dollars in the austere, Gramm-Rudman climate.

The increased interaction was also determined to carry beyond those with line authority. Over 90% felt, as a result of Gramm-Rudman and its impact on the activity, the level of budget awareness had increased in the work centers.

An inevitable result of increased centralization is an increase in the volume of financial reporting. Clearly two thirds of the financial managers surveyed felt that subsequent to Gramm-

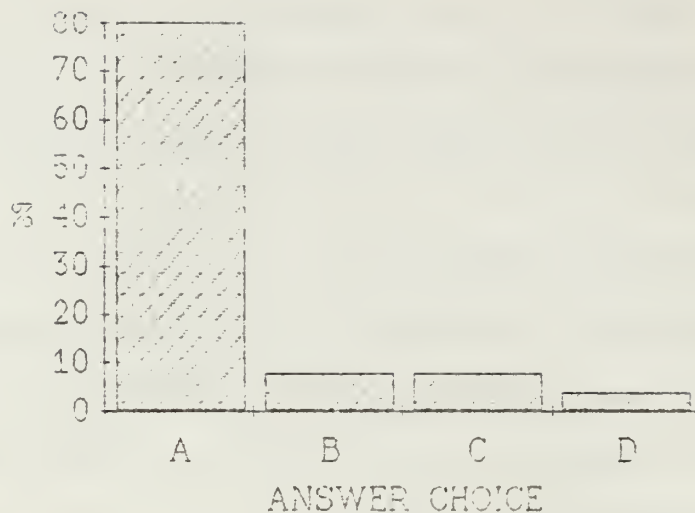
Rudman, financial reporting requirements to higher authority had increased. Opinions were mixed, however, with regard to whether internal reporting on financial matters had increased or remained the same.

Most managers were satisfied with the amount of information on the FY-86 cuts they received from higher authority. The same cannot be said for the timeliness of the information. Only 15% considered the timeliness good, while almost 45% believed the timeliness to be poor or inadequate.

#### F HOW PEOPLE FARED

Though the ability of managers to make decisions, structure priorities, and define organizational relationships are all essential services which must be performed, an organization lives or dies by its people. Classic "people issues" relevant to cutting back are hiring freezes, increased attrition, and sagging morale. How did the responses to cutting back by the activities surveyed impact on their employees?

A hiring freeze, a proven means of cutting back, was implemented by almost 90% of the respondents, as Figure 5.6 illustrates. In almost all of these cases, the freeze was adopted across the board, with only 8% freezing hires in selected areas.



#### KEY TO RESPONSES.

	<u>%</u>
A. Applied across the board	80
B. Applied to selected areas	8
C. No hiring freeze has been implemented	8
D. Other	4

Figure 5.6 If your activity was given latitude in implementing a hiring freeze, was the freeze \_\_\_\_.

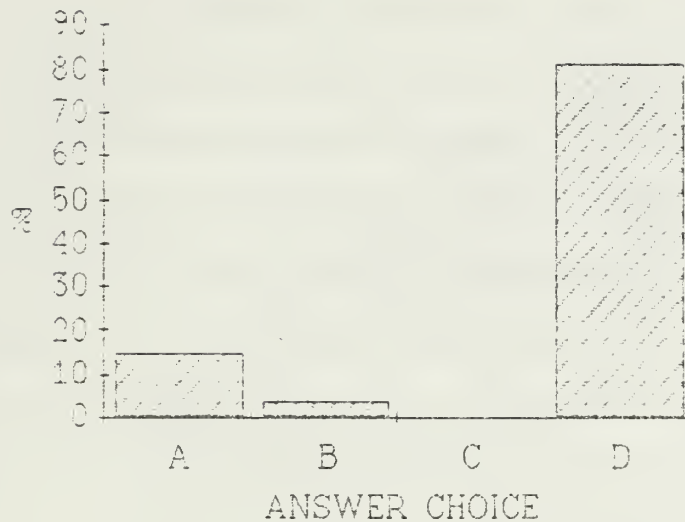
Though the hiring freeze was effective in providing near term savings, the dangers of the freeze, if allowed to persist, were evident. One concerned manager stated.

Dollars can be found, but you can't buy good, trained people if they aren't there.

Empirical evidence suggests that one of the classic results when cutting back is that employee attrition will increase and that those that leave the organization will be amongst the most able, since their ability and skill level provides them a higher degree of mobility. Employee attrition following the FY-86 cuts increased in



41% of the activities surveyed. Attrition remained unchanged in an equal number of commands



KEY TO RESPONSES.

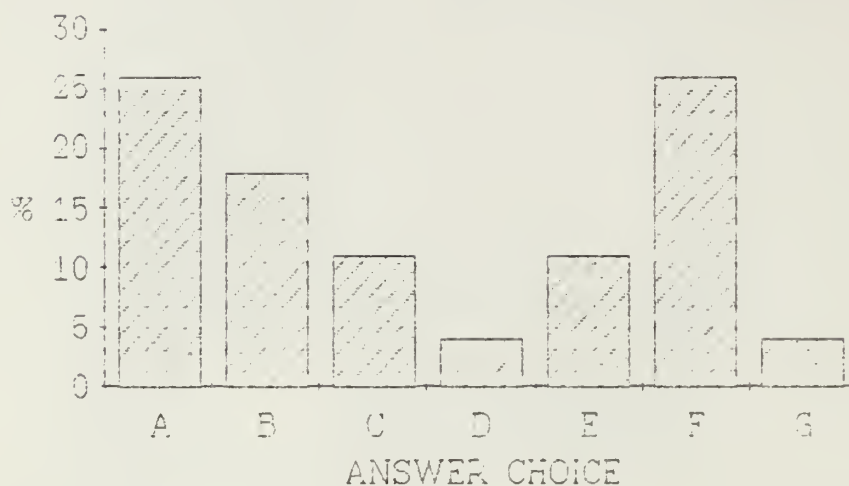
	%
A. Among the top performers	15
B. Average performers .	4
C. Among the lower performers	0
D. A mixture of performers	81

Figure 5.7 Since 01 March, the civilian personnel which have left your activity have been \_\_\_\_\_.

Surprisingly, as Figure 5.7 indicates, only 15% of the respondents indicated that those personnel leaving the activity were among the top performers. A very significant majority, 81%, agreed that those leaving were composed of a mixture of performers.

Another people issue, employee morale, deviated from that which was expected. As Figure 5.8 indicates, a mix of reactions

occurred, with only 55% of those surveyed agreeing to any extent whatsoever that morale at their activity had decreased.



#### KEY TO RESPONSES:

A.	Strongly agree	26
B.	Agree	18
C.	Mildly agree	11
D.	No opinion	4
E.	Mildly disagree	11
F.	Disagree	26
G.	Strongly disagree	4

Figure 5.8 Morale at your activity has decreased

Though morale may not have fallen as much as expected, the increased pressures of fiscal constraint did take a toll. One manager, when reminiscing about the days when resources were more plentiful commented:

Personnel were able to work with much less stress. The decisions were made with much less pressure and concern to make every dollar count.

The DOD organizations which responded to the survey faced the Gramm-Rudman mandated budget cuts in FY-86 from a variety of perspectives, with a variety of strategies, and with mixed results. These organizations were not the first nor will they be the last to face quantum resource shortfalls. One thing is certain. Managing under austere conditions is a different game than when resources are plentiful. A comptroller summarized this when he responded:

There used to be many 'fly by night' financial managers. Now, with Gramm-Rudman more comptrollers have to 'get their hands dirty.' We can no longer sign our names like using a rubber stamp. We require frugality at every level, from the E-2 in the work center to the C.O. and including everyone in between.

Managerial responses to both Proposition 13 and Gramm-Rudman mandated budget cuts have now been examined. What conclusions can be drawn? By applying the lessons learned from the California experience and the theories of cutback management it is possible to speculate on the status and ultimate success of cutback management in the Gramm-Rudman environment.

## VI. CONCLUSION✓

The reaction to the Gramm-Rudman mandated FY-86 budget cuts by the financial managers surveyed was similar in many respects to that theorized in the literature and demonstrated in California following cuts imposed by Proposition 13. The most difficult hurdle to clear when cutting back is reaching the realization that the requirement for the cuts is long term, and that cuts into the budgetary base first, have to be made, and second, will not be restored. Organizations must understand that the reason for cutting back is not to save money during the year in question, but to pare the organization down to a level which can be supported with a reduced stream of resources.✓

As has been seen in both California, and now, within DOD, reaching this realization is difficult. Though some activities have been successful in reaching the final stage of recognition, most have not. The August "bail-out" referenced by many respondents exacerbated the already difficult process of acceptance. As a result, many managers and their activities still view the impact of deficit reduction on their budgets as another crisis which will be weathered with help coming from higher authority when things get tight.✓

## A. A COMPARISON OF RESPONSES ✓

By comparing the responses of managers to Proposition 13 and to Gramm-Rudman it may be possible to judge the ultimate outcome of the Gramm-Rudman deficit reduction process. Key areas which can be compared are the planning and decision making processes, inter-organizational communications, relationships with higher authority, and of course, how the people involved dealt with each fiscal crisis. By looking at each element, a broad understanding can be reached as to where, after a year of Gramm-Rudman, the DOD activities stand, and which areas need emphasis if the activities are going to weather the deficit reduction storm. ✓

DOD managers appear to be more aggressive in their commitment to financial planning than their counterparts in California. As has been noted in California, many planning staffs were quickly cut since they were not directly involved in providing services to the public. The DOD managers surveyed indicated that planning staffs had been cut in very few cases, and that while the size of the staffs had seldom been increased, there was significant interaction between the planners and the line managers. The importance of planning cannot be understated, especially when faced with the prospects of extended budget reductions. ✓

The necessity of frequent and substantive communications are essential to effective cutback management. The city of Oakland, in particular, excelled in communicating the impact and extent of

Proposition 13 to its populace. Oakland's managers, by attending to this key management function were able to frame expectations with a realistic appraisal of the impact on local government and services. In contrast, other California municipalities, by failing to adequately inform their citizens of the scope of the cutbacks, left their populations with the belief that Proposition 13 would only "cut the fat." ✓

Unfortunately, communications to the DOD activities surveyed regarding the FY-86 Gramm-Rudman cuts and guidance concerning FY-87/88 were not considered very effective. Most managers were dissatisfied with both the level and the timeliness of the information received. The California experience validated the literature in that effective communications are essential not only for cutback planning but for execution as well. ✓

Both California managers and those surveyed agreed that the decision making process is more difficult during periods of fiscal austerity. Managers from both groups commented on the stresses involved in decision making and how much more important it is to make the "right" decision when scarce resources are in great demand. ✓

The overwhelmingly popular strategy of deferring maintenance surfaced in both California and amongst the activities and managers surveyed. While managers complained of roads decaying in California, DOD managers were concerned with aircraft hangers falling while the planes were still flying. It must be noted,



however, that deferring maintenance is clearly a temporary solution for short term savings. If this strategy persists it will yield dire results, both in decreased readiness and in expenses to correct.✓

While cutting at the margin was initially popular in California, most California managers quickly realized that marginal cutbacks would only go so far in meeting reduced, follow-on budgets. While marginal cuts clearly predominated as the strategy to meet the FY-86 Gramm-Rudman cutbacks, there is a growing awareness among the DOD managers that marginal cuts will not suffice in the future. Although most indicated their approach to meeting the expectantly lower FY-87 budget figures would still include cuts at the margins, there is clearly a realization that the margin is getting too thin in many areas to sustain additional cuts. As deficit reduction continues through the end of the decade, hard decisions will inevitably have to <sup>be</sup> made regarding vertical cuts of entire programs/categories to achieve the necessary savings. It happened in California and it will happen in DOD.✓

As could be expected, while strategies for cutting in California and DOD were very similar, so too, were the areas which were protected from the budgetary axe. Both mission operations' categories and those organizations providing public services were usually the last cut.✓

Great pains were also taken to insulate personnel to the utmost extent possible in both situations. Though a certain number of

personnel lost their jobs as a result of Proposition 13 and Gramm-Rudman, hiring freezes were employed in both California and among the activities surveyed to cut personnel cost while allowing those already on the job to remain at work. Similarly, managers from both areas expressed their concern for the longer range consequences of the freeze.✓

A classic consequence of cutting back, loss of autonomy, was experienced at the local government level in California and by the DOD activities surveyed. The movement toward centralization was greater in California due to the formalized requirements which accompanied the state's "bailout" funds. DOD organizations were, by no means, exempt. Managers commented how decisions affecting operations were now being bumped up to higher authority, and a majority stated that both guidance received from and reports to higher authority had increased since Gramm-Rudman became law.✓

## B. THE BOTTOM LINE AND RECOMMENDATIONS

After facing Gramm-Rudman and deficit reduction for less than a year, DOD activities have made a start toward effective cutback management. The process remains evolutionary. The literature insists the way to cut back is by accepting the long term nature of the cuts, and formulating strategies based on quickly getting the organization down to a supportable size. Meanwhile human nature, being what it is, attempts as long as possible, to

hold on to the old organization, to maintain the status quo. The marginal cuts and the underlying belief that help is on the way clearly indicate that the DOD activities surveyed are still holding on to the old, and have not yet fully committed to achieving a leaner, more supportable organization. It will take time, and the shock of the ever increasing differences between the budget expected and the budget approved will eventually force the issue.✓

The transition will occur. Management must be sensitive to the inertia present and take steps to promote the rapid transition to an organizational size and scope consistent with the budget available for its support.✓

Emphasis needs to be directed toward:✓

- Enhancing communications to the activity level by paying particular attention to ensuring timely, consistent, and accurate information flows to the managers who have to execute the cuts.✓
- Implementing vertical (program or specific activity) cuts. After a point, which may already have been exceeded, marginal cuts will no longer suffice. Activities must make the difficult decisions and eliminate entire programs to achieve a level of operations which will be supportable.✓
- Eliminating short term cutback strategies such as deferral of maintenance and across the board hiring freezes. Both of these strategies are counter-productive over the long run. If allowed to persist, an organization will quickly find both its physical plant and its labor force old and run down. And finally; ✓
- Regaining organizational credibility regarding the necessity for cutting back. Regardless of the outcome of the FY-87 Appropriations Act, activity managers will expect another

end of year bailout. Until management at the activity level is convinced that the requirement for cutting back is real, organizational inertia to cutback management will remain insurmountably high. ✓

While this study of responses to Gramm-Rudman proved fascinating, there is still much left to do. Although FY-86 seemed a key year to study the effects of deficit reduction, the responses in FY-87, when marginal cuts may no longer be viable alternatives, could provide even more insight into the process of cutting back. A separate topic would be to observe the "learning curve" of cutting back; how lessons learned have been applied from FY-86 to FY-87. The process of allocating cuts within various budget categories or among organizational levels would prove useful in understanding the decision making and priority setting processes of upper management. Finally, a study of the continuing impact of cutting back on DOD employees is required. Theory states that the most gifted workers will leave an organization which is cutting back. Though in general the top performers stayed with their activities in FY-86, their flight may have been delayed by the belief that the FY-86 cuts were "business as usual." Will this attitude persist as deficit reduction continues? ✓

In looking at cutback management and the responses to Proposition 13 and Gramm-Rudman certain themes persist. During the early stages of this study, it seemed likely that parallels could be found between the specific strategies employed by the California managers and those implemented by their DOD counterparts. The results of the study were expected to focus on



how this or that activity deferred maintenance, let the roads and grounds deteriorate to save operating funds, or became more dependent on the decisions of higher authority. All occurred and were reported. However, in aggregating the responses to the Gramm-Rudman Questionnaire, it became apparent that there was more. ✓

A strong underlying current of uncertainty exists regarding the ultimate result and impact of Gramm-Rudman. The FY-86 cuts, and the prospects of continued cuts are certainly acknowledged, but the activities concerned have not yet grasped the impact of continued cuts on their size and method of doing business. If the momentum behind deficit reduction remains strong, cuts into the budgetary base will demand a reduction in size and scope of operations. The activities will have to change to meet their new levels of resources. They cannot continue to conduct business as usual, or even do marginally less than usual. The activities concerned, their clientele, and most importantly, their seniors in the chain of command have to realize this fact of fiscal life. Until this realization occurs, the hard decisions necessary to optimize operations at reduced funding levels will be delayed. ✓

The challenge of deficit reduction under Gramm-Rudman is real and will not retreat. Leadership, vision, communications, and credibility are required to overcome the resistance to organizational change and move toward a level of operations which can be supported with available resources. ✓

## APPENDIX

RCS OPNAV 7100-2

### GRAMM-RUDMAN QUESTIONNAIRE

BRANCH OF SERVICE \_\_\_\_\_  
FY-86 OPERATING BUDGET \_\_\_\_\_

1. THE IMPACT OF THE FY-86 GRAMM-RUDMAN CUTS ON YOUR ACTIVITY HAS BEEN:

- \_\_\_\_\_ A. SIGNIFICANTLY POSITIVE (A REAL BENEFIT)
- \_\_\_\_\_ B. POSITIVE (WE WERE ABLE TO "CUT THE FAT")
- \_\_\_\_\_ C. NO IMPACT (BUSINESS AS USUAL)
- \_\_\_\_\_ D. NEGATIVE (WE LOST SOME GOOD PROGRAMS)
- \_\_\_\_\_ E. SIGNIFICANTLY NEGATIVE (HELP!!)
- \_\_\_\_\_ F. WE GOT BY THIS YEAR, BUT WE CAN'T SUSTAIN AT THIS LEVEL

2. AS A RESULT OF THE CUTS MANDATED BY GRAMM-RUDMAN, THE ACTIVITY'S:

- \_\_\_\_\_ A. MANAGEMENT HAS IMPROVED AND OPERATIONS HAVE BECOME MORE EFFICIENT
- \_\_\_\_\_ B. OPERATIONS HAVE BECOME LESS EFFECTIVE
- \_\_\_\_\_ C. OPERATIONS HAVE BEEN REDUCED, BUT THOSE FUNCTIONS WHICH ARE STILL BEING CARRIED OUT ARE BEING DONE BETTER
- \_\_\_\_\_ D. OPERATIONS ARE BEING MAINTAINED AT PREVIOUS LEVELS, BUT CANNOT BE SUSTAINED
- \_\_\_\_\_ E. THERE HAS BEEN NO IMPACT ON EITHER MANAGEMENT OR OPERATIONS



3. HAVE REQUIREMENTS BEEN \_\_\_\_\_ IN ORDER TO KEEP OPERATING BUDGETS WITHIN REVISED LEVELS? (CHECK AS MANY BOXES AS APPROPRIATE)

- |          |         |          |                   |
|----------|---------|----------|-------------------|
| _____ A. | DELETED | _____ C. | DEFERRED          |
| _____ B. | REDUCED | _____ D. | NONE OF THE ABOVE |

4. IF MORE THAN ONE BOX WAS CHECKED IN THE PRECEEDING QUESTION, WHICH ONE TECHNIQUE OF THOSE CHECKED REPRESENTS YOUR ACTIVITY'S "PRINCIPAL STRATEGY?"

- \_\_\_\_\_ A. N/A
- \_\_\_\_\_ B. DELETED
- \_\_\_\_\_ C. REDUCED
- \_\_\_\_\_ D. DEFERRED
- \_\_\_\_\_ E. NO TECHNIQUE DOMINATED

5. HAVE ANY PROGRAMS WHICH WERE INITIALLY REDUCED BEEN REINSTATED?

- \_\_\_\_\_ A. YES
- \_\_\_\_\_ B. NO

6. IF PROGRAMS WERE REINSTATED, THEY WERE DONE SO DUE TO:

- \_\_\_\_\_ A. CUTS NOT BEING REQUIRED TO MEET REVISED OPERATING BUDGETS
- \_\_\_\_\_ B. OPERATIONAL IMPACT TOO SEVERE
- \_\_\_\_\_ C. PRESSURE FROM CLIENTELE
- \_\_\_\_\_ D. OTHER \_\_\_\_\_

7. HAVE REDUCTIONS AT YOUR ACTIVITY RESULTING FROM GRAMM-RUDMAN CONSISTED OF:

- \_\_\_\_\_ A. SHORT TERM CUTBACKS
- \_\_\_\_\_ B. LONG TERM CUTBACKS
- \_\_\_\_\_ C. MIX OF BOTH LONG AND SHORT TERM CUTBACKS
- \_\_\_\_\_ D. NO CUTBACKS

8. HAVE GRAMM-RUDMAN MANDATED CUTS FOCUSED:

- ☐ A. AT THE MARGIN OF ALL/MOST PROGRAMS
- ☐ B. AT THE MARGIN OF SELECTED PROGRAMS
- ☐ C. AT ELIMINATING ENTIRE PROGRAMS

9. WHAT DEGREE OF DISCRETION DID YOUR ACTIVITY HAVE IN IMPLEMENTING FY-86 CUTS?

- ☐ A. NO FLEXIBILITY, ALL CUTS WERE SPECIFIED
- ☐ B. DISCRETION WITHIN ACTIVITY GROUPS
- ☐ C. DISCRETION WITHIN SUB-ACTIVITY GROUPS
- ☐ D. DISCRETION WITHIN FUNCTIONAL CATEGORIES
- ☐ E. DISCRETION WITHIN EXPENSE ELEMENTS

10. IF YOUR ACTIVITY WAS GIVEN LATITUDE IN IMPLEMENTING A HIRING FREEZE, WAS THE FREEZE:

- ☐ A. APPLIED ACROSS THE BOARD
- ☐ B. APPLIED TO SELECTED AREAS
- ☐ C. NO HIRING FREEZE HAS BEEN IMPLEMENTED
- ☐ D. OTHER \_\_\_\_\_

11. WHAT EFFECT HAVE THE GRAMM-RUDMAN FY-86 CUTS HAD ON PERSONNEL ATTRITION?

- ☐ A. INCREASED
- ☐ B. STAYED THE SAME
- ☐ C. DECREASED

12. SINCE 01 MARCH, HAVE THOSE CIVILIAN PERSONNEL WHICH LEFT YOUR ACTIVITY BEEN?

- ☐ A. AMONG THE TOP PERFORMERS
- ☐ B. AVERAGE PERFORMERS
- ☐ C. AMONG THE LOWER PERFORMERS
- ☐ D. A MIXTURE OF PERFORMERS WITH NO DISCERNIBLE PREDOMINANCE

13. WHICH OF THE FOLLOWING PHRASES BEST CHARACTERIZES YOUR ACTIVITY'S APPROACH TO THE FY-86 CUTS, AND THE OVERALL DEFICIT REDUCTION MOVEMENT?

- ☐ A. TREATING THE "CRISIS" AS ROUTINE
- ☐ B. ATTEMPTING TO SURVIVE THE CURRENT SHORT TERM "CRISIS" WHILE HOPING FOR RELIEF OVER THE LONG TERM
- ☐ C. COMING TO GRIPS WITH GRAMM-RUDMAN AS A LASTING FACTOR INFLUENCING BUDGETING

14. DURING THE INITIAL DECISIONS ON WHERE TO IMPOSE CUTS, WERE THE MISSION OF YOUR ACTIVITY AND ITS MANDATED FUNCTIONS REVIEWED?

- ☐ A. YES
- ☐ B. NO

15. IF A REVIEW WAS CONDUCTED WERE THE RESULTS OF THE REVIEW USED IN DETERMINING WHICH AREAS TO CUT?

- ☐ A. YES
- ☐ B. IN MOST CASES
- ☐ C. IN SOME CASES
- ☐ D. NO

QUESTIONS 16-23 PERTAIN TO FY-86 GRAMM-RUDMAN BUDGET CUTS. THE QUESTIONS ARE DESIGNED TO PINPOINT HOW CUTS WERE PRIORITIZED, FIRST BY FUNCTIONAL AREA, AND THEN BY EXPENSE ELEMENT WITHIN EACH AREA.

16. PLEASE INDICATE THE ORDER IN WHICH CATEGORIES WERE CUT WITH A 1,2,3,ETC.IN THE ADJACENT BLANK.

- \_\_\_ MISSION OPERATIONS
- \_\_\_ ADMINISTRATION
- \_\_\_ MAINTENANCE OF MATERIAL
- \_\_\_ BASE SERVICES
- \_\_\_ MAINTENANCE OF REAL PROPERTY (MRP)
- \_\_\_ UTILITY OPERATIONS
- \_\_\_ SUPPORT CATEGORIES
- \_\_\_ ALL CATEGORIES WERE CUT
- \_\_\_ OTHER (PLEASE SPECIFY) \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

17. IF MISSION OPERATIONS WERE CUT, WHICH OF THE FOLLOWING EXPENSE ELEMENTS, WITHIN THAT CATEGORY WERE CUT?

- \_\_\_ CIVILIAN PERSONNEL
- \_\_\_ TRAVEL OF PERSONNEL
- \_\_\_ UTILITIES AND RENT
- \_\_\_ PURCHASED EQUIPMENT, MAINTENANCE
- \_\_\_ PRINTING AND REPRODUCTION
- \_\_\_ PURCHASED SERVICES
- \_\_\_ SUPPLIES
- \_\_\_ EQUIPMENT
- \_\_\_ DIFFERENTIATION WAS NOT POSSIBLE, ALL ELEMENTS CUT

18. IF ADMINISTRATION WAS CUT, WHICH OF THE FOLLOWING EXPENSE ELEMENTS, WITHIN THAT CATEGORY WERE CUT?

- CIVILIAN PERSONNEL
- TRAVEL OF PERSONNEL
- UTILITIES AND RENT
- PURCHASED EQUIPMENT, MAINTENANCE
- PRINTING AND REPRODUCTION
- PURCHASED SERVICES
- SUPPLIES
- EQUIPMENT
- DIFFERENTIATION WAS NOT POSSIBLE, ALL ELEMENTS CUT

19. IF MAINTENANCE OF MATERIAL WAS CUT, WHICH OF THE FOLLOWING EXPENSE ELEMENTS, WITHIN THAT CATEGORY WERE CUT?

- CIVILIAN PERSONNEL
- TRAVEL OF PERSONNEL
- UTILITIES AND RENT
- PURCHASED EQUIPMENT, MAINTENANCE
- PRINTING AND REPRODUCTION
- PURCHASED SERVICES
- SUPPLIES
- EQUIPMENT
- DIFFERENTIATION WAS NOT POSSIBLE, ALL ELEMENTS CUT

20. IF BASE SERVICES WERE CUT, WHICH OF THE FOLLOWING EXPENSE ELEMENTS, WITHIN THAT CATEGORY WERE CUT?

- CIVILIAN PERSONNEL
- TRAVEL OF PERSONNEL
- UTILITIES AND RENT
- PURCHASED EQUIPMENT, MAINTENANCE
- PRINTING AND REPRODUCTION
- PURCHASED SERVICES
- SUPPLIES
- EQUIPMENT
- DIFFERENTIATION WAS NOT POSSIBLE, ALL ELEMENTS CUT

21. IF MRP WAS CUT, WHICH OF THE FOLLOWING EXPENSE ELEMENTS, WITHIN THAT CATEGORY WERE CUT?

- CIVILIAN PERSONNEL
- TRAVEL OF PERSONNEL
- UTILITIES AND RENT
- PURCHASED EQUIPMENT, MAINTENANCE
- PRINTING AND REPRODUCTION
- PURCHASED SERVICES
- SUPPLIES
- EQUIPMENT
- DIFFERENTIATION WAS NOT POSSIBLE, ALL ELEMENTS CUT



22. IF UTILITIES WERE CUT, WHICH OF THE FOLLOWING EXPENSE ELEMENTS, WITHIN THAT CATEGORY WERE CUT?

- CIVILIAN PERSONNEL
- TRAVEL OF PERSONNEL
- UTILITIES AND RENT
- PURCHASED EQUIPMENT, MAINTENANCE
- PRINTING AND REPRODUCTION
- PURCHASED SERVICES
- SUPPLIES
- EQUIPMENT
- DIFFERENTIATION WAS NOT POSSIBLE, ALL ELEMENTS CUT

23. IF SUPPORT CATEGORIES WERE CUT, WHICH OF THE FOLLOWING EXPENSE ELEMENTS, WITHIN THOSE CATEGORIES WERE CUT?

- CIVILIAN PERSONNEL
- TRAVEL OF PERSONNEL
- UTILITIES AND RENT
- PURCHASED EQUIPMENT, MAINTENANCE
- PRINTING AND REPRODUCTION
- PURCHASED SERVICES
- SUPPLIES
- EQUIPMENT
- DIFFERENTIATION WAS NOT POSSIBLE, ALL ELEMENTS CUT

24. IF FUNCTIONAL CATEGORIES/ACTIVITIES WERE REINSTATED AFTER BEING CUT OR REDUCED, PLEASE INDICATE IN WHAT ORDER THEY WERE RESTORED WITH A 1, 2, 3, ETC. :

- MISSION OPERATIONS
- ADMINISTRATION
- MAINTENANCE OF MATERIAL
- BASE SERVICES
- MAINTENANCE OF REAL PROPERTY
- UTILITY OPERATIONS
- SUPPORT CATEGORIES

25. HOW HAS YOUR ACTIVITY'S FINANCIAL PLANNING FUNCTION FARED IN THE FACE OF FY-86 CUTS?

- \_\_\_\_\_ A. PLANNING STAFFS HAVE BEEN CUT
- \_\_\_\_\_ B. PLANNING STAFFS HAVE BEEN INCREASED
- \_\_\_\_\_ C. PLANNING STAFFS HAVE NOT BEEN AFFECTED
- \_\_\_\_\_ D. PLANNING STAFFS HAVE NOT INCREASED, BUT MORE RESPONSIBILITY CENTER HEADS ARE NOW INVOLVED IN ACTIVE PLANNING

26. THE FINANCIAL PLANNING STAFF AT YOUR ACTIVITY:

- \_\_\_\_\_ A. IS ADEQUATE
- \_\_\_\_\_ B. WAS PREVIOUSLY ADEQUATE, BUT NOW, IN THE CURRENT FISCAL CLIMATE, IS INADEQUATE
- \_\_\_\_\_ C. IS ADEQUATE, BUT LIMITED IN ITS ABILITY TO CONDUCT FORMAL PROGRAM ANALYSIS NECESSARY TO MAKE THE "HARD DECISIONS" NOW REQUIRED
- \_\_\_\_\_ D. HAS ALWAYS BEEN INADEQUATE

27. TO WHAT EXTENT HAS YOUR INTERACTION WITH THE COMMANDING OFFICER REGARDING FY-86 BUDGET AND PLANNING FOR FY-87/88 BEEN AFFECTED BY THE CLIMATE OF DEFICIT REDUCTION?

- \_\_\_\_\_ A. SIGNIFICANTLY INCREASED.
- \_\_\_\_\_ B. INCREASED
- \_\_\_\_\_ C. REMAINED THE SAME
- \_\_\_\_\_ D. DECREASED
- \_\_\_\_\_ E. SIGNIFICANTLY DECREASED

28. TO WHAT EXTENT HAS YOUR LIAISON WITH DEPARTMENT HEADS REGARDING FY-86 BUDGET AND PLANNING FOR FY-87/88 BEEN AFFECTED BY THE CLIMATE OF DEFICIT REDUCTION?

- \_\_\_\_\_ A. SIGNIFICANTLY INCREASED.
- \_\_\_\_\_ B. INCREASED
- \_\_\_\_\_ C. REMAINED THE SAME
- \_\_\_\_\_ D. DECREASED
- \_\_\_\_\_ E. SIGNIFICANTLY DECREASED

29. IN CONSIDERING MEANS TO REDUCE COSTS, NEWLY INSTITUTED PROGRAMS WERE.

- \_\_\_\_\_ A. CONSIDERED PART OF THE BASE AND EVALUATED ON INDIVIDUAL MERITS
- \_\_\_\_\_ B. WERE CUT BEFORE OLDER, MORE ESTABLISHED PROGRAMS
- \_\_\_\_\_ C. CUT AT THE MARGINS ALONG WITH OTHER PROGRAMS
- \_\_\_\_\_ D. OTHER \_\_\_\_\_

30. HAS THE SPECTER OF REDUCED, OR AT LEAST NON-INCREASING, OPERATING BUDGETS \_\_\_\_ PLANS FOR CAPITAL ACQUISITION/EXPANSION?

- \_\_\_\_ A. SIGNIFICANTLY INCREASED
- \_\_\_\_ B. INCREASED
- \_\_\_\_ C. NOT AFFECTED
- \_\_\_\_ D. REDUCED
- \_\_\_\_ E. SIGNIFICANTLY REDUCED

31. THOUGH THE FINAL AMOUNT OF THE FY-87 BUDGET IS STILL NOT CERTAIN, IT SEEMS EVIDENT THAT TO MEET THE DEFICIT REDUCTION TARGETS, DOD WILL RECEIVE LESS THAN REQUESTED IN THE PRESIDENT'S BUDGET. WHAT DEGREE OF GUIDANCE/PLANNING HAVE BEEN RECEIVED/CARRIED OUT IN VIEW OF THE HIGH POTENTIAL FOR FURTHER CUTS IN OPERATING BUDGETS?

GUIDANCE RECEIVED

- \_\_\_\_ A. EXTENSIVE
- \_\_\_\_ B. MODERATE
- \_\_\_\_ C. LIMITED
- \_\_\_\_ D. NONE

PLANNING CONDUCTED

- \_\_\_\_ A. EXTENSIVE
- \_\_\_\_ B. MODERATE
- \_\_\_\_ C. LIMITED
- \_\_\_\_ D. NONE

32. DO YOU FEEL THE INEVITABLE IMPACT OF THE FY-88 DEFICIT TARGET WAS CONSIDERED IN FORMULATING THE FY-88 BUDGET?

- \_\_\_\_ A. YES -- FORMALLY  
(FOR INSTANCE, AS EVIDENCED BY REDUCED CONTROL NUMBERS)
- \_\_\_\_ B. YES -- INFORMALLY (AS EVIDENCED AT MEETINGS, BY TELEPHONE CONVERSATIONS, ETC.)
- \_\_\_\_ C. YES -- AT LEAST AT THE ACTIVITY LEVEL
- \_\_\_\_ D. NO -- OR NOT APPARENT

33. IF MARGINAL CUTS WERE MADE ON PROGRAMS TO ACCOMMODATE THE FY-86 BUDGET REDUCTIONS, CAN ADDITIONAL MARGINAL CUTS BE IMPLEMENTED TO MEET ANTICIPATED BUDGET REDUCTIONS/LACK OF OPERATING BUDGET GROWTH IN FY-87/88?

- \_\_\_\_\_ A. YES
- \_\_\_\_\_ B. IN SOME, BUT NOT ALL, CASES
- \_\_\_\_\_ C. NO

34. IF MARGINAL CUTS WILL NOT SUFFICE TO MEET ANTICIPATED FY-87/88 BUDGET LEVELS, WHAT OPTIONS ARE BEING CONSIDERED?

- \_\_\_\_\_ A. HIGH COST PROGRAMS WILL BE CUT
- \_\_\_\_\_ B. PROGRAMS WITH LOW COST TO BENEFIT RATIOS WILL BE CUT
- \_\_\_\_\_ C. PROGRAMS NOT MANDATED BY THE ACTIVITY'S MISSION WILL BE REDUCED/ELIMINATED
- \_\_\_\_\_ D. PERSONNEL INVOLVED IN NON MISSION-ESSENTIAL TASKS WILL BE CUT
- \_\_\_\_\_ E. OTHER \_\_\_\_\_

35. HOW HAVE THE GRAMM-RUDMAN FY-86 BUDGET CUTS AFFECTED THE LEVEL OF YOUR COMMAND'S FINANCIAL REPORTING?

- A.
  - \_\_\_\_\_ INCREASED REPORTING WITHIN YOUR ACTIVITY
  - \_\_\_\_\_ HAD NO AFFECT ON REPORTING WITHIN YOUR ACTIVITY
  - \_\_\_\_\_ DECREASED REPORTING WITHIN YOUR ACTIVITY
- B.
  - \_\_\_\_\_ INCREASED REPORTING TO HIGHER ECHELONS
  - \_\_\_\_\_ HAD NO AFFECT ON REPORTING TO HIGHER ECHELONS
  - \_\_\_\_\_ DECREASED REPORTING TO HIGHER ECHELONS



36. THE AMOUNT OF FINANCIAL GUIDANCE FROM THE CLAIMANT/SUB-CLAIMANT LEVEL HAS \_\_\_\_\_ AS A RESULT OF THE GRAMM-RUDMAN PROCESS IN GENERAL.

- \_\_\_\_\_ A. INCREASED SIGNIFICANTLY
- \_\_\_\_\_ B. INCREASED
- \_\_\_\_\_ C. NOT BEEN AFFECTED
- \_\_\_\_\_ D. DECREASED
- \_\_\_\_\_ E. DECREASED SIGNIFICANTLY

37. THE LEVEL OF FINANCIAL CONTROL EXERCISED BY THE CLAIMANT/SUB-CLAIMANT \_\_\_\_\_ AS A RESULT OF THE GRAMM-RUDMAN PROCESS IN GENERAL.

- \_\_\_\_\_ A. INCREASED SIGNIFICANTLY
- \_\_\_\_\_ B. INCREASED
- \_\_\_\_\_ C. NOT BEEN AFFECTED
- \_\_\_\_\_ D. DECREASED
- \_\_\_\_\_ E. DECREASED SIGNIFICANTLY

38. THE LEVEL OF INFORMATION YOU RECEIVED PERTAINING TO THE FY-86 GRAMM-RUDMAN CUTS WAS:

- \_\_\_\_\_ A. EXCELLENT
- \_\_\_\_\_ B. GOOD
- \_\_\_\_\_ C. SUFFICIENT
- \_\_\_\_\_ D. POOR
- \_\_\_\_\_ E. INADEQUATE

39. THE TIMELINESS OF THE INFORMATION YOU RECEIVED PERTAINING TO THE FY-86 GRAMM-RUDMAN CUTS WAS:

- \_\_\_\_\_ A. EXCELLENT
- \_\_\_\_\_ B. GOOD
- \_\_\_\_\_ C. SUFFICIENT
- \_\_\_\_\_ D. POOR
- \_\_\_\_\_ E. INADEQUATE



40. HAS THE OVERALL LEVEL OF BUDGET AWARENESS AT THE RESPONSIBILITY CENTERS WITHIN YOUR ACTIVITY \_\_\_\_\_ AS A RESULT OF THE GRAMM-RUDMAN?

- \_\_\_\_\_ A. SIGNIFICANTLY INCREASED
- \_\_\_\_\_ B. INCREASED
- \_\_\_\_\_ C. STAYED THE SAME
- \_\_\_\_\_ D. DECREASED
- \_\_\_\_\_ E. SIGNIFICANTLY DECREASED

41. SINCE 01 MARCH, WHILE OPERATING IN A CLIMATE OF INCREASED FISCAL AUSTERITY, THE DECISION MAKING PROCESSES HAVE:

- \_\_\_\_\_ A. BECOME MORE DIFFICULT
- \_\_\_\_\_ B. TAKEN MORE TIME THAN WHEN MONEY WAS NOT AS TIGHT
- \_\_\_\_\_ C. NOT BEEN AFFECTED
- \_\_\_\_\_ D. BECOME EASIER
- \_\_\_\_\_ E. TAKEN LESS TIME THAN WHEN MONEY WAS NOT AS TIGHT
- \_\_\_\_\_ F. BOTH A AND B ABOVE
- \_\_\_\_\_ G. BOTH D AND E ABOVE

42. RELIANCE ON "RATIONAL" DECISION MAKING TOOLS SUCH AS LINEAR PROGRAMMING, MODELING, AND OTHER MANAGEMENT SCIENCE TECHNIQUES HAS \_\_\_\_\_ DURING THE PLANNING FOR FY-86 CUTS AND FOR UPCOMING BUDGET SUBMISSIONS.

- \_\_\_\_\_ A. INCREASED
- \_\_\_\_\_ B. NOT BEEN AFFECTED
- \_\_\_\_\_ C. DECREASED
- \_\_\_\_\_ D. HAVE NEVER BEEN AND ARE NOT NOW BEING USED

43. "IN IMPLEMENTING THE FY-86 CUTS, EMPLOYEE IDEAS FOR AREAS WHERE ADDITIONAL COST SAVINGS COULD BE ACHIEVED WERE ACTIVELY SOLICITED."

- \_\_\_\_\_ A. STRONGLY AGREE
- \_\_\_\_\_ B. AGREE
- \_\_\_\_\_ C. MILDLY AGREE
- \_\_\_\_\_ D. NO OPINION
- \_\_\_\_\_ E. MILDLY DISAGREE
- \_\_\_\_\_ F. DISAGREE
- \_\_\_\_\_ G. STRONGLY DISAGREE

44. "MORALE AT YOUR ACTIVITY HAS DECREASED DURING THE 'GRAMM-RUDMAN ERA.' "

- \_\_\_\_\_ A. STRONGLY AGREE
- \_\_\_\_\_ B. AGREE
- \_\_\_\_\_ C. MILDLY AGREE
- \_\_\_\_\_ D. NO OPINION
- \_\_\_\_\_ E. MILDLY DISAGREE
- \_\_\_\_\_ F. DISAGREE
- \_\_\_\_\_ G. STRONGLY DISAGREE

45. OF PARTICULAR INTEREST IN THIS STUDY IS THE DECISION MAKING PROCESS DURING PERIODS OF "CUTBACK MANAGEMENT." YOUR COMMENTS ON THE FOLLOWING SUBJECTS WOULD PROVIDE KEEN INSIGHT INTO THE PROCESS. PLEASE COMMENT:

A. ON THE QUALITY/LEVEL/TREND(S) OF THE STRATEGIC PLANNING FUNCTION AT YOUR ACTIVITY IN THE FACE OF REDUCED RESOURCES

B. CONTRAST THE DECISION MAKING PROCESS DURING TIMES OF FISCAL "PLENTY" (FY 82-84) WITH THE CURRENT PROCESS.

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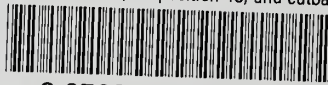
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